Personal fitness: Malibu's boot camp by the sea

The cost of tort: $300 billion a year and growing

February 17, 1992 Four Dollars

Forbes

British Petroleum Chairman Robert Horton

"I am determined to make this organization a damned sight quicker and smarter than the opposition. And you do that by releasing the ingenuity of your people."

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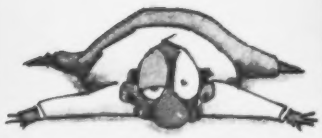

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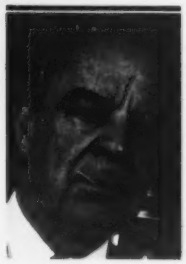

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Cover photo by Barry Lewis/Network-Matrix

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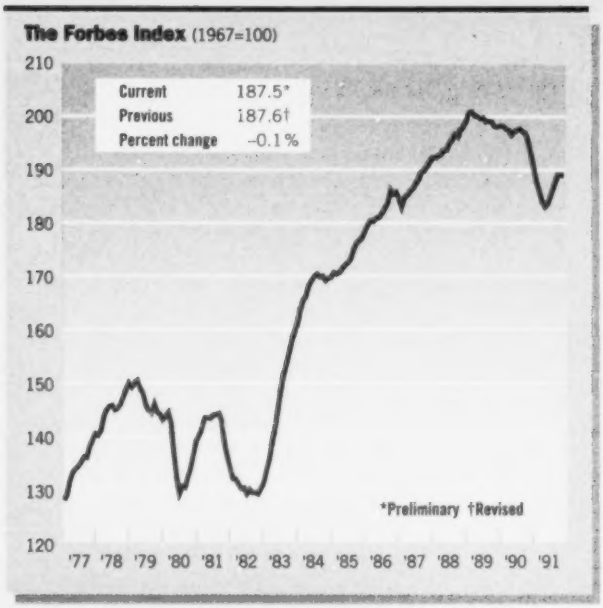
THE FORBES INDEX

BY TIMOTHY DODMAN



How weak was the economy in 1991? Pretty weak. New housing starts fell nearly 15% last year, to just over 1 million units, the lowest level since 1945. Retail sales gained 0.7% in 1991, the smallest increase in three decades. By contrast, the Consumer Price Index was 3.1% higher in December than it was a year earlier. With weak consumer demand and plenty of excess industrial capacity, corporations may have a hard time raising prices. This could put a damper on the earnings rebound that many expect for the year ahead.

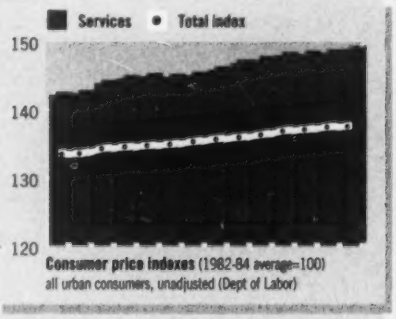
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	-8.1%
Index of leading indicators Nov vs Oct	Dept of Commerce	-0.3%
Trade balance 12 months ended Nov 1991	Dept of Commerce	-$65 bil
All-commodity producer price index Dec vs Nov[2]	Dept of Labor	-0.4%
GDP 3rd quarter vs 2nd—annualized growth	Dept of Commerce	1.8%
M2 (3-month change)—annualized growth[3]	Federal Reserve	1.6%

[1] U.S.-based manufacturers, excludes imports, as of 1/20/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

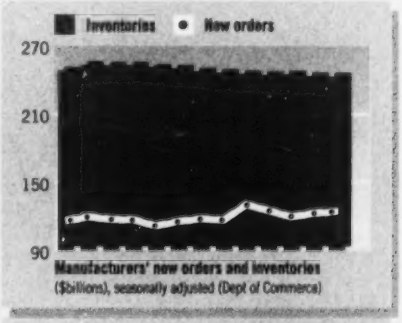
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

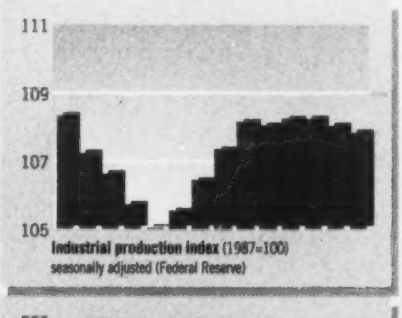
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



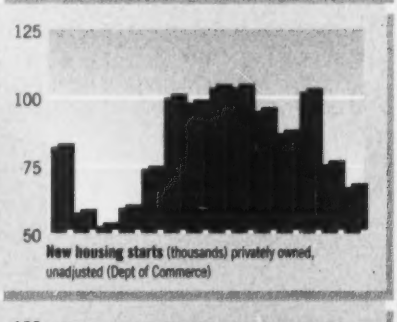
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



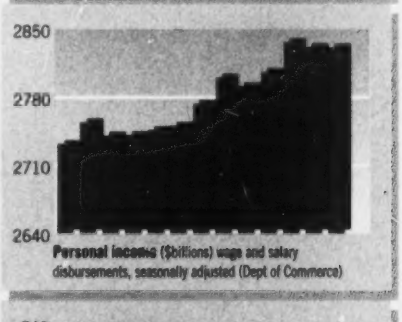
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

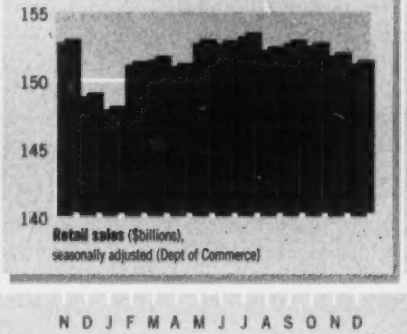


New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)

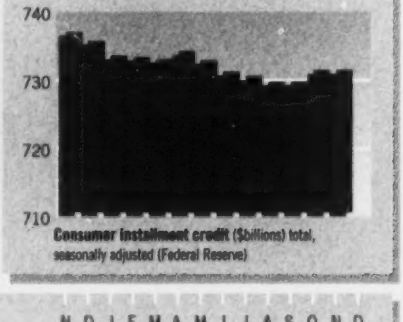


Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

N D J F M A M J J A S O N D N D J F M A M J J A S O N D N D J F M A M J J A S O N D

Suing for damages has become both a huge industry and a tremendous drag on American industry's ability to compete.

The tort tax

By Leslie Spencer

MILLIONS OF ordinary Americans may be worried about the economy, but 1992 already promises to be another big year for the country's trial lawyers. Arm in arm with the Scientologists, the plaintiffs' bar is in hot pursuit of Eli Lilly, maker of the antidepressant Prozac. A flurry of liability suits is about to engulf Upjohn, maker of Halcion, the popular sleeping pill. On a third front, plaintiffs' lawyers have just filed hundreds of cases against Dow Corning's silicone breast implants, which they hope will enrich them as asbestos enriched them in the 1980s.

Further down the line, plaintiffs' lawyers are assessing their prospects against Nutri/System and HMR 500 diet plans. The Civil Rights Act of 1991 promises to generate countless lawsuits against employers.

How much does all this tort litigation cost the U.S.? Two years ago FORBES reported the tort system's direct costs at $80 billion a year (FORBES, *Oct. 16, 1989*). That figure was based on a study by Tillinghast, a Hartford-based actuarial consulting firm. It represented lawyers' fees, payouts to claimants and insurers' administrative costs in 1985.

The estimate did not go down well with the trial lawyers and the groups associated with them. Last October Joan Claybrook, president of Ralph Nader's Public Citizen, told PBS' *Adam Smith's Money World* that the annual cost of torts is just $30 billion. Claybrook sourced her figure to a study done by Rand Corp.'s respected Institute for Civil Justice, and asserted that the FORBES figure had "no statistical basis whatsoever."

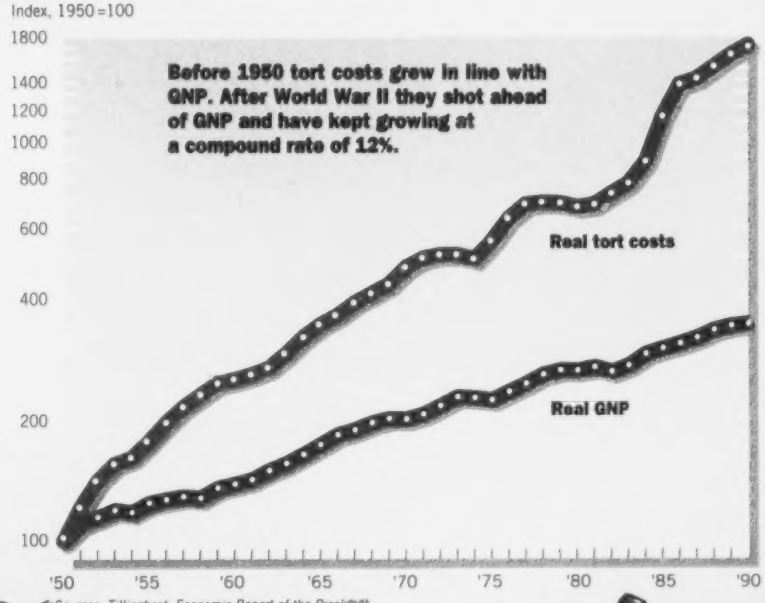
If anything, FORBES' estimate understated the true cost of the tort system. In a recently released update of its 1984 study, Tillinghast analyzed liability insurers' costs for 1987. Its conclusion: Tort claims cost the country $117 billion that year. James Kakalik, coauthor of the Rand study cited by Claybrook, says it is Tillinghast's $117 billion number, not Rand's $30 billion to $36 billion range, that represents the direct "tort tax" consumers end up paying.

Robert Sturgis, who wrote the latest Tillinghast study, notes that from 1933 until 1950, U.S. tort costs grew in line with the overall economy. Since 1950, however, they have grown at a compound rate of 12% a year—much faster than the costs of workers' compensation, government-paid health care and welfare. Assuming that tort costs kept growing at 12% after 1987, the cost last year came to $184 billion—nearly on a par with the country's net private domestic investment.

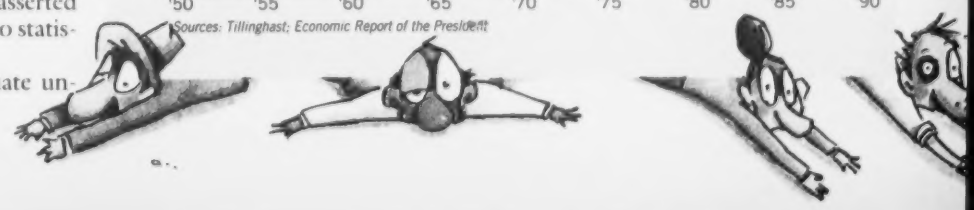
Where does all the money go? Both Rand and Tillinghast agree that injured claimants end up with only half of the proceeds from this tort tax. Further, according to Tillinghast, only a quarter compensates economic losses of plaintiffs. (The other quarter pays for plaintiffs' "pain and suffering.") The other half goes to insurers' administration costs and to lawyers to cover their fees and the expenses they incur on things like discovery and expert witnesses.

How could two studies come up with such different numbers? The Rand study set out to measure only the costs directly associated with state and federal lawsuits. The Tillinghast study went further. It took into account such costs as the payments to resolve the millions of potential lawsuits that never reach the courthouse, and the costs to insurers of processing

Torts vs. GNP



Sources: Tillinghast; Economic Report of the President



claims and defending suits.

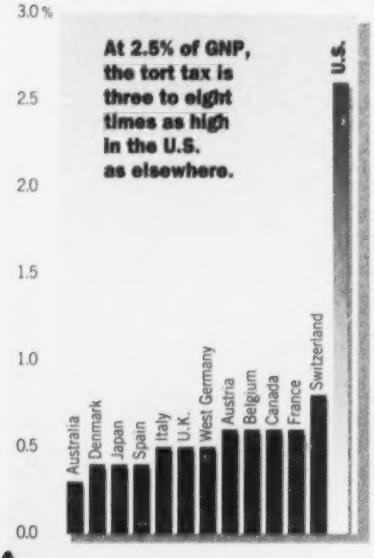
Note that the Tillinghast and Rand studies consider only the tort system's *direct* costs to the economy. Beyond the direct costs are the harder-to-measure—but very real nonetheless—indirect costs incurred in efforts to stay out of the trial lawyers' talons.

For example, a 1989 American Medical Association study estimated that for every $1 they spend on insurance premiums, doctors spend $2.70 performing often unnecessary tests and beefing up record keeping to avoid litigation; this suggests that excluding premium costs of about $5 billion to $6 billion, the indirect tort tax related to medical malpractice liability alone cost the economy about $15 billion that year.

How much of the nation's $738-billion-a-year health care bill can be laid to the tort system? Hard to say, but a 1991 study of auto injury claims in Hawaii by the Insurance Research Council gives some indication. The study reports that medical treatment of a typical neck sprain from whiplash comes to about $1,300 if handled without a lawyer, on a no-fault basis. The cost to treat the same injury if part of a tort claim comes to about $8,000.

Out front and losing

Tort costs as percent of GNP



Source: Tillinghast, 1987 study

One can argue that the right of consumers to sue to recover for injury protects us against incompetent doctors, and manufacturers who make lawnmowers that cut fingers along with the grass. The problem with the argument is that the tort industry has grown so large that it is now reducing the quality and availability of many goods and services.

There are countless examples. Toxic leak detectors, useful to anyone handling toxic substances, were designed in the mid-1970s. But many were kept off the market out of fear of lawsuits should the detectors fail.

Or take small planes. Very few new, technologically advanced single- and

Tort gushers for 1991

Juries handed down these jackpot tort verdicts last year. The top ten total comes in at three times the total of just three years ago.

$127.7 million Chicago	Product liability verdict against drug manufacturer Upjohn Co., alleging that anti-inflammation drug Depo-Medrol caused blindness, which resulted in loss of plaintiff's eye.
$91.3 million Brooklyn	45-plaintiff consolidated award in case tried against Owens-Corning Fiberglas and other asbestos manufacturers. Same jury still deciding product identification, defendant's culpability and punitive damages.
$86.5 million St. Louis	Sum of verdicts against Decom Medical Waste Systems, KML Corp., Bunker Resources, Recycling and Reclamation Inc. and Raymond Adams, for accusing plaintiff of bringing AIDS virus into a hospital. Settled, amount sealed.
$84.5 million Houston	Premises liability award against an apartment complex and its management company in case of children drowned and brain-damaged in complex pool. Settled for $17 million.
$75 million New York	Product liability case consolidating 36 plaintiffs against the Manville Trust, Owens-Illinois and other asbestos manufacturers.
$62 million Santa Ana, Calif.	Insurance bad faith award against Truck Insurance Exchange and Farmer's Insurance Exchange where insurer was accused of failing to pay for insured's legal defense. Judge reduced verdict to $58 million. On appeal.
$61.2 million Anchorage	Insurance bad faith case against underwriters at Lloyd's of London for failure to pay a restaurant owner's fire insurance claim. On appeal.
$47 million Houston	Product liability case against Fibreboard and three other asbestos manufacturers for 275 plaintiffs.
$35 million Los Angeles	Finding against California for failure to maintain center barrier of interstate highway in case of accident resulting in quadriplegia to a 34-year-old man. Settled for $15 million.
$33.8 million Corpus Christi	Product liability award against Merrell-Dow Pharmaceuticals for birth defects allegedly caused by pregnant woman's use of Bendectin.

Note: Excludes civil verdicts against alleged or convicted criminals.
Sources: Jury Verdict Research; Jury Verdict Review; FORBES.

Where lawyers are prospecting

If juries go along, these hot new tort topics will make plaintiffs' lawyers and their expert witnesses rich.

Breast implants	Hundreds of cases pending against Dow Corning, other manufacturers and physicians, arising from alleged implant leaks and fibrous tissue formation.
Halcion	At least 20 cases pending against Upjohn Co.'s drug alleging behavioral side effects resulting in paranoia, suicide and murder.
Insurance policies	Hundreds of bad faith cases pending against many insurance companies and agents alleging emotional distress after the insured's claim is rejected.
Electromagnetic fields	About a dozen personal injury cases against several utility companies and electrical transmission equipment manufacturers alleging brain damage, cancer and leukemia caused by electric and magnetic fields.
Prozac	An estimated 100 cases pending against Eli Lilly & Co. Supposed adverse effects include suicidal and homicidal behavior.

twin-engine planes are manufactured today because of liability costs to the manufacturer. The perverse consequence: Older planes stay in use longer than they would if prices of new ones weren't so high.

Although impossible to quantify precisely, it's likely that the tort system's indirect costs are at least as high as the direct ones. That would put the annual tort tax at well over $300 billion today—and growing rapidly. Rand's James Kakalik thinks that the American Medical Association's estimate that medical malpractice's indirect costs are over 2½ times direct costs is a fair high-end estimate for the tort system as a whole.

Whatever its precise dimension, the tort tax is now weighing heavily on the ability of American industries to innovate and to compete internationally. At 2.5% of U.S. GNP, the tort system's direct costs (as estimated by Tillinghast for 1987) impose a burden in the U.S. five times that in the U.K., and almost seven times the level in Japan *(see chart, p. 41)*.

There are a few rays of hope. Vice President Dan Quayle is pushing tort reform, targeting such areas as frivolous lawsuits, arbitrary punitive damages, "junk science" in the courtroom (FORBES, *July 8, 1991*). Among Quayle's proposals: Ban contingency fees for expert witnesses, curb punitive damages and adopt the English Rule, whereby losers pay the winners' costs. Last October President George Bush signed an executive order mandating that all government agencies implement Quayle's proposed reforms when litigating. In his State of the Union address late last month, Bush again called for tort reform.

But effective reform remains elusive. Those who oppose it are too powerful and have too much at stake. As of Jan. 22 a loser-pays rule is authorized in most cases the government brings. But this sensible reform is toothless without budget approval from Congress, whose members are unlikely to approve.

Perhaps the only real solution lies with judges and juries. As they begin to appreciate the true magnitude and ramifications of the spiraling tort tax, they will be more likely to throw frivolous lawsuits and venal demands back at the lawyers responsible. ■

His enemies say it's only a matter of time before William Dean Singleton's highly leveraged newspaper empire totally collapses. The wait may be long.

"We're the only one left"

By William P. Barrett

WILLIAM DEAN SINGLETON's first effort at owning a daily newspaper ended badly but memorably. His *Fort Worth Press*, a poorly financed revival facing an entrenched competitor, shut in 1975 after only three months. On the final day, angry reporters hurled beer cans at Singleton as he made a newsroom speech.

"I was 24 years old then," he says, clearly pained by the memory. "I've learned a lot since then."

Among the things Singleton, now 40, has learned is how to finance his acquisitions. Rule number one: Use other people's capital. Rule number two: Don't use all your assets as collateral for a loan to buy another property; that way, one piece of the empire can go down without dooming the whole empire. And never sign personal guarantees for corporate loans. Another important rule: Keep overhead down. Singleton's headquarters staff: just 14 people.

MediaNews Group's William Dean Singleton **Gets a dreadful word-of-mouth.**

With aggressive borrowing and diligent cost-chopping, Singleton—who tends to leave daily operations to his lieutenants while he makes deals—has built quite a business. Revenues of his privately owned parent, Houston-based MediaNews Group, were an estimated $450 million last year. Its 15 dailies in 9 states include the *Denver Post*, the *Houston Post* and monopoly papers in several smaller cities.

Singleton made his first MediaNews acquisition in 1983 when he paid $10 million for the *Gloucester County Times*, in the New Jersey suburbs of Philadelphia. Some $7 million of that came from banks. The rest came from Richard Scudder, a third-generation newspaper owner who had run the now defunct *Newark Evening News*. Now 78, Scudder is still Singleton's 50-50 partner and MediaNews' chairman.

As media values rose during the 1980s, Singleton was often able to entirely finance a new property with a short-term bank loan, later refinanced with longer-term investors. MediaNews' debt and preferred stock is down to around $400 million.

Recently, of course, media values have been falling and cash flows slowing. Singleton's many detractors—he gets a dreadful word-of-mouth within the business, partly because he often furloughs employees—predict his

If you are too timid to dive into the overheated stock market, too unhappy with paltry returns to stay in cash, there is a plausible middle course: a package of bond mutual funds.

Fixed-income strategy for fund buyers

By William Baldwin

BOND FUNDS are attracting two sorts of investors these days. One group consists of timid CD holders. They missed the bull market in stocks and they have no desire to jump in now. Their bank deposits are coming due, and they aren't happy with the low returns banks are offering. Bond funds may offer them a better deal.

In the other camp are former equity investors who simply think stocks are overpriced at 27 times trailing 12-month earnings. They hear a chorus of bulls explaining that with money rates low and no place else for investors to go with their money, the stock market can only go up. These contrarians are attracted to bond funds now as a temporary holding. They will emerge to buy stocks when stocks drop to a more normal 12 times earnings.

If you find yourself in either camp, this primer on fixed-income investing via mutual funds may be of interest. There are many circumstances in which investors, even well-heeled ones, do better buying their bonds through a fund than directly.

Following this essay are tables covering stock funds (beginning on page 156), tax-exempt bond funds (page 162) and taxable bond funds (page 164). This abbreviated update to our annual fund survey shows bull and bear market ratings for 656 funds, along with total returns for 1991. The annual review, which will next appear Aug. 31, has more detail about fund assets, loads and expense ratios.

How good a return can you get from bond funds? Not enough to make you rich, but enough to keep ahead of inflation. A moderately risky portfolio of efficiently managed bond funds has a likely return of about 3% a year above inflation. The risk can be dampened somewhat by getting the government to share your losses. The risk should also be diminished with a little diversification; a handful of funds will do.

Let's recapitulate those points as four rules of bond fund investing.

The first rule: *Have rational expectations.* The easiest mistake for a bond fund investor to make, especially a newcomer arriving from the safer world of bank CDs, is to project the recent past into the future. But last year's total return on a fund says next to nothing about its expected future return.

If you want to know what to expect from a fund, start with this simple formula: Expected return equals yield minus expenses. Find out what yields are on the kind of bond the fund owns, and subtract the fund's overhead cost, or annual expense ratio. Example: Vanguard's long-term Treasury fund buys U.S. government bonds yielding 7.7%, and runs up annual costs of 0.3%. So its expected return is 7.4%. The fund's total return (yield plus capital gains) over the next year could be much better or much worse, depending on which way interest rates go. But you can think of the 7.4% as par for the course. That's all you'll get if interest rates don't change.

A statistical expectation is an average of all possible outcomes, weighted by their probabilities. What would you pay for a raffle ticket that has a 50-50 chance of paying either $10 or $100? The expected return on this gamble is exactly $55—50% of $10 plus 50% of $100. Note that the actual return on a single ticket will be some other number—$10 or $100. But the $55 figure says what this ticket is worth to a rational buyer. An irrational buyer pays $60 if he has just won $100 on the last flip of the coin.

Best buys in bond funds

Fund	5-year total return annualized	Annual expenses per $100	Yield*	Telephone
Long-term bond funds				
USAA Mutual–Income Fund	11.1%	$0.46	7.8%	800-531-8181
Value Line US Government Securities	9.9	0.66	7.4	800-223-0818
Vanguard Fixed Income–Invest Grade	10.2	0.37	8.2	800-662-7447
Vanguard Fixed Income–US Treasury	9.2	0.30	7.4	800-662-7447
Ginnie Mae funds				
Benham GNMA Income	10.1	0.72	8.3	800-472-3389
Federated GNMA Trust	10.4	0.52	8.0	800-245-5000
Franklin US Govnmt Securities	9.7	0.52	7.8	800-342-5236
Vanguard Fixed Income–GNMA	10.4	0.34	8.2	800-662-7447
Junk bond funds				
Federated High Yield Trust	9.1	0.78p	11.4	800-245-5000
Lord Abbett Bond-Debenture Fund	9.3	*0.88*	9.8	800-223-4224
Merrill Lynch Corp–High Income	10.5	0.69	10.9	800-637-3863
Vanguard Fixed Income–High Yield	7.7	0.40	10.5	800-662-7447
Municipal bond funds				
Fidelity Tax-Free–Aggressive	8.7	0.66	6.9	800-544-8888
Vanguard Muni Bond–High Yield	8.6	0.26	6.4	800-662-7447
Vanguard Muni Bond–Insured L-T	8.6	0.26	6.1	800-662-7447
Vanguard Muni Bond–Intermediate	8.1	0.26	5.7	800-662-7447

*Current yield as defined by the Securities & Exchange Commission. p: Net of absorption of expenses by fund sponsor. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1%.*

These funds all score well on two tests: high performance and low costs. Performance is total return over five years, with penalties for volatility. Costs are sales loads (assumed to be spread over five years) plus annual expenses.

In the following tables, we publish a 12-month total return, which is the sum of dividends plus price gains or losses. Think of this number as what the lottery ticket paid on the last coin flip. Use it to compare a fund with a similar fund, not to compare it with a bank deposit.

Consider Benham Target Maturities–2015, a fund designed to mimic the performance of a zero coupon bond due in 23 years. Last year, with interest rates falling, the fund delivered a total return of 22.5%.

Is that an indication of what you can expect in the future? Not at all. Indeed, if you intend to hold this fund until 2015, there is no question of probabilities. You know the outcome in advance. The zeros are now yielding 8.1% to maturity. That, minus the fund's annual expenses, will be your return over the years.

The yield-minus-expenses formula works fine for the highest-quality noncallable bonds, which most Treasurys are. (Some long-term Treasurys can be called five years before maturity.) Risky and callable bonds need a further adjustment.

Junk bond funds have high yields that are offset by occasional losses of principal when an issuer defaults. (Think of Macy's.) What's the expected default loss? There's no magic formula, but a prudent investor would allow for a percentage point or two of annual loss.

Edward Taber III, director of T. Rowe Price's taxable bond division, says that junk prices should be firm enough this year to fully offset default losses, but that's a bullish view. If his prediction holds, a junk fund holder will enjoy a total return this year close to the fund's dividend rate, typically 10% to 12%. Note that Taber is not basing his prediction on what the T. Rowe Price High Yield Fund did last year—a total return of 30.9%.

Municipal bonds, unlike Treasurys, can often be called in early if the issuer so desires. This turns the bond into a heads-you-lose, tails-you-break-even proposition. If interest rates go up, you are stuck with the low-yielding bond. If rates go down, the bond gets taken away from you.

What does this do to your expected return? The answer depends on just what bonds your fund manager is buying. But, as a rough rule of thumb, subtract 0.2% from the stated yield of a long-term bond, says Ian MacKinnon, who runs Vanguard's fixed-income bond fund division. If a long-term muni fund reports a yield of 6.2%, then you should expect only 6% from it.

Ginnie Mae fund buyers also need a downward adjustment in their expectations. The risk here is that homeowners will call in the Ginnie Maes by refinancing their homes very quickly—but only if interest rates fall. This bias against the investor knocks maybe 0.5% off the expected return. With Ginnie Maes yielding up to 8.3%, a Ginnie Mae fund with a 0.5% expense ratio will have an expected return of only 7.3%.

One other factor should figure into your expectations if you plan ever to

live off your bond fund, and that is inflation. Prices are up some 3% from a year ago, but inflation would have been higher with food and energy excluded. Pessimists should knock 4% off expected returns to get a real expectation. Bottom line: 3% to 4% real returns on Treasury funds, slightly more on Ginnie Mae funds.

The second rule of bond fund investing: *Watch your costs.* Good bond funds have zero transaction costs (no loads or redemption fees, that is) and low annual costs.

How low is low? Vanguard's U.S. bond funds run up 0.3% or so in annual expenses. If a fund wants to charge you substantially more, there ought to be a compelling reason, such as enormous convenience or outstanding past performance over many years. The table (page 153) lists 16 Best Buy bond funds in 4 categories, selected on the basis of good performance and low costs.

Good bond funds, which are extremely liquid, beat direct investments in bonds. You can sell a no-load bond fund with a telephone call. To be sure, Treasurys bought directly from the government incur no annual overhead costs. But selling a Treasury before it matures will cost you a brokerage fee. And funds buy in even lots of $1 million. Most individual investors are odd-lotters and pay more.

Investors in municipal or junk bonds have even less justification for buying directly. In those markets, credit risk compels the sane investor to hold at least 20 positions for diversification. With bid/ask spreads wide on odd lots (less than $100,000), junk and muni investors need at least $2 million before they outgrow their need for funds.

Third rule: *Get the government to share your losses.* A classic maneuver in bond investing is the year-end tax swap. If your bonds have declined in value, you sell for a deductible capital loss and immediately repurchase similar, but not identical, bonds. (If you immediately buy back identical securities, the Internal Revenue Service won't permit the deduction.) The drawback is high transaction costs, those bid/ask spreads that the broker may have forgotten to tell you about.

Solution: Buy no-load bond funds instead of bonds. Swap out of, say, a Dreyfus muni bond fund, take your loss, and put the proceeds into a similar Fidelity muni fund. The two funds will respond similarly to a rebound in the muni market, so you don't risk cashing out at the bottom. But the funds are not identical in the IRS' eyes.

Remember, you are not trying to lose money on bond funds just to get a tax deduction. If you buy a muni fund with a 6% expected return, you hope to be pleasantly surprised with a 12% return. If rates fall and your fund shares appreciate, don't sell, since you'd owe capital gain tax. But if the market dips, swap. A capital loss is deductible against any amount of capital gain plus up to $3,000 of other income.

Final rule of bond fund investing: *Diversify—a little.* Since funds are already diversified, you don't need a fistful of them to spread your risk.

A plausible portfolio if you are in a high tax bracket would be this: 25% each in a money market, a junk bond fund, a Ginnie Mae or Treasury fund and a municipal bond fund specializing in bonds from your home state. Dividends on junk and Ginnie Mae funds are fully taxable. Treasury funds pay income that is usually exempt from state and local taxes, and local muni funds pay dividends usually exempt from both state and federal tax. With this spread, you would do much better than you would sitting on all cash, awaiting the coming of a cheap stock market. You would be exposed to some interest rate risk, but not a huge amount, and some risk from department store bankruptcies, but not an unbearable amount.

Divide your business between two no-load fund houses; if you maintain a money market account at each, a tax-loss swap is as easy as two phone calls. For a bond fund investor, more than two fund houses is unnecessary clutter. ■

Stock and balanced funds

If the best measure of what to expect from a fund were its recent performance, just about all of these stock and balanced funds would be great buys. They averaged a 35.7% total return last year, 5 points ahead of the market.

But the point cannot be overemphasized: The fact that a fund, or the market, was recently strong says nothing about its likely return this year. For that reason we grade funds separately in bull and bear markets. Unless you don't care much about risk, or are certain to hold on for several market cycles, you should pay as much attention to a fund's bear market performance as its bull market performance. This approach makes even more sense today, in a market where stocks are trading at an extraordinarily high 27 times earnings. Consider, for example, the Constellation Fund distributed by AIM Equity. Its 70.2% latest 12-month total return makes it tempting to investors who want to be on board a hot performer. But note that while this fund is rated A+ in up markets, it gets an F in down markets. Unless you think the market is going to rise in an unbroken straight line, keep that F rating in mind.

To be rated below, a fund must have $25 million in assets and two full market cycles of history. The last two up-and-down cycles go back to June 1983 for stock funds, April 1983 for balanced funds and July 1984 for foreign funds. The performance benchmark for stock funds is the S&P 500. For balanced funds the benchmark is a blended index of the S&P 500 and a Merrill Lynch bond index. For foreign funds it's a Morgan Stanley international index.

Fund	Performance in UP	DOWN —markets—	12-month total return
ABT Growth & Income Trust	C	D	29.5%
ABT Utility Income Fund	F	A+	17.8
Acorn Fund*	B	C	47.1
Adams Express*	C	B	31.8
Aegon USA Growth	D	A	36.7
Affiliated Fund	C	B	21.9
Aim Equity—Charter Fund	B	C	37.4
Aim Equity—Constellation Fund	A+	F	70.2
Aim Equity—Weingarten Fund	A+	D	46.8
Aim Summit Fund	B	D	43.6
Alliance Balanced Shares (B)	B	C	20.4
Alliance Fund	B	D	35.9
Alliance Global—Small Cap Fund	C	D	25.3
Alliance Growth & Income	C	B	26.4
Alliance International Fund (F)	B	C	7.7
Alliance Quasar Fund	A	D	34.2
Alliance Technology Fund	A+	F	54.2
Amcap Fund	C	B	36.5
American Balanced Fund (B)	B	B	24.5
American Capital Comstock Fund	C	A	31.2
American Capital Convertible Secs* (B)	C	B	22.9
American Capital Emerging Growth	B	A	59.2
American Capital Enterprise Fund	B	D	38.3
American Capital Equity Income (B)	B	B	26.6
American Capital Growth & Income	C	B	30.2
American Capital Harbor Fund (B)	B	D	23.0
American Capital Pace Fund	C	A	31.4
American Growth Fund	F	A	23.6
American Investors Growth Fund	D	F	29.9
American Leaders Fund	D	A	31.0
American Mutual Fund	D	A	21.3
American National Growth Fund	B	C	37.0

Fund	Performance in UP	DOWN —markets—	12-month total return
American National Income Fund	D	A	29.0%
AMEV Capital Fund	A	B	49.2
AMEV Fiduciary Fund	A	C	52.3
AMEV Growth Fund	A	C	66.8
Amway Mutual Fund	C	C	19.7
Analytic Optioned Equity Fund*	F	A	13.3
ASA Limited* (F)	C	D	–7.8
Axe-Houghton Fund B (B)	A	D	22.0
Axe-Houghton Growth Fund	A	F	39.3
Babson Growth Fund*	C	D	26.0
Baker, Fentress & Co*	D	B	25.1
Bancroft Convertible Fund* (B)	D	C	24.0
Bartlett Capital Trust—Basic Value*	D	A	26.0
Berger One Hundred Fund	A	D	100.6
Bergstrom Capital*	A	A	64.1
Wm Blair—Growth*	B	C	43.0
Boston Co Capital Appreciation Fund	C	C	22.8
Bull & Bear Capital Growth Fund	D	D	21.3
Bull & Bear Gold Investors Fund (B)	F	F	–1.1
Burnham Fund	D	A	17.9
Calvert Social Inv—Managed Growth (B)	C	D	17.7
Cardinal Fund	C	B	31.8
Castle Convertible Fund* (B)	D	A	30.1
Central Securities*	D	D	24.1
Century Shares Trust*	C	A	31.4
CGM Capital Development Fund*	A+	B	99.3
CGM Mutual Fund* (B)	A+	D	40.9
Cigna Growth Fund	B	C	35.9
Colonial Fund (B)	B	D	25.1
Colonial Growth Shares Trust	B	D	34.0
Colonial Strategic Inc—Diversified (B)	D	D	28.3
Columbia Growth Fund*	A	C	34.2

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

Fund	Performance in UP	DOWN —markets—	12-month total return
Commonwealth Investment—Balanced (B)	D	C	25.4%
Composite Bond & Stock Fund (B)	D	B	21.4
Composite Growth Fund	D	A	26.8
Copley Fund*	F	A	17.1
Country Capital Growth Fund	C	C	27.8
Dean Witter American Value Fund	B	C	55.5
Dean Witter Developing Growth Secs	D	D	48.2
Dean Witter Dividend Growth Secs	C	A	30.5
Dean Witter Natural Resource Devel	D	C	5.3
Dean Witter World Wide Investment (G)	C	C	18.8
Delaware Group Decatur Fund—I	D	A	21.8
Delaware Group Trend Fund	A+	C	74.5
Dodge & Cox Balanced Fund* (B)	B	C	20.6
Dodge & Cox Stock Fund*	B	B	21.2
Dreyfus Convertible Securities Fund* (B)	C	C	33.0
Dreyfus Fund*	D	B	27.7
Dreyfus Growth Opportunity Fund*	B	D	51.4
Dreyfus Leverage Fund	D	B	31.7
Dreyfus Third Century Fund*	C	C	37.8
Eaton Vance Growth Fund	B	B	39.0
Eaton Vance Investors Fund (B)	C	C	21.0
Eaton Vance Special Equities Fund	C	B	55.6
Eaton Vance Stock Fund	D	B	20.6
Eaton Vance Total Return Trust	D	A	22.9
Enterprise Group—Growth	A	B	41.8
Equity Strategies Fund*	C	C	12.4
EuroPacific Growth Fund (F)	C	C	18.5
Evergreen Fund*	B	C	39.3
Evergreen Limited Market Fund*	A	B	50.6
Evergreen Total Return Fund*	D	A	22.9
FBL—Growth Common Stock	F	C	14.4
Federated Stock & Bond Fund* (B)	D	A	17.2
Federated Stock Trust*	C	A	28.3
Fidelity Contrafund	A	D	54.3
Fidelity Destiny Portfolio I*	A	B	38.2
Fidelity Equity-Income Fund	D	A	29.3
Fidelity Fund*	C	B	23.6
Fidelity Growth Company	A	D	47.4
Fidelity Magellan Fund	A+	B	40.1
Fidelity Puritan Fund (B)	B	B	26.2
Fidelity Retirement Growth*	B	C	44.8
Fidelity Select—Energy	D	C	0.0
Fidelity Select—Financial Services	C	B	61.5
Fidelity Select—Health Care	A+	D	82.7
Fidelity Select—Prec Metals & Mins (F)	D	D	1.5

Fund	Performance in UP	DOWN —markets—	12-month total return
Fidelity Select—Technology	A	F	59.0%
Fidelity Select—Utilities	D	A	20.9
Fidelity Trend Fund*	B	D	35.7
Fidelity Value Fund*	C	C	25.9
Fiduciary Capital Growth Fund*	C	C	36.2
Financial Dynamics Fund	B	D	67.0
Financial Industrial Fund	B	D	42.1
Financial Industrial Income Fund	B	B	46.3
First Investors Global Fund (G)	A	D	16.8
Flex-funds—Growth Fund	F	A	20.7
Founders Blue Chip	B	C	28.0
Founders Growth Fund	A	C	47.0
Founders Special Fund*	A	D	63.1
FPA Capital Fund	B	C	63.6
FPA Paramount Fund	C	A	23.7
Franklin DynaTech Fund	B	D	35.3
Franklin Equity Fund	C	D	26.1
Franklin Gold Fund (F)	C	C	6.0
Franklin Growth Fund	B	B	26.3
Franklin Income Fund (B)	D	A	40.8
Franklin Premier Return Fund	D	B	22.2
Franklin Utilities Fund	D	A+	24.0
Fundamental Investors	B	B	31.1
Gateway Index Plus Fund*	D	A	17.8
General American Investors*	A	D	61.4
Gintel Erisa Fund	D	A	13.5
Growth Fund of America	B	B	35.1
GT Global Growth—Pacific (F)	B	B	12.9
Guardian Park Ave Fund	B	B	35.0
John Hancock Growth Fund	B	D	41.8
John Hancock Sovereign Investors	D	A	30.4
John Hancock Tech—Global Tech	D	D	33.5
John Hancock Tech—Natl Aviation & Tech	C	D	31.2
Hartwell Emerging Growth	A+	F	70.2
IAI Regional Fund	A	B	35.0
IAI Stock Fund	C	B	26.5
IDS Discovery Fund	A	D	52.8
IDS Equity Plus	B	C	31.6
IDS Growth Fund	A+	D	46.9
IDS Mutual (B)	C	B	23.4
IDS New Dimensions Fund	A	C	49.3
IDS Progressive Fund	D	B	25.1
IDS Stock Fund	C	B	27.1
Income Fund of America (B)	C	A+	23.7
Investment Co of America	B	B	27.2

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

STOCK AND BALANCED FUNDS

THE FUNDS

Fund	Performance in UP —markets—	DOWN	12-month total return
ITB—Growth Opportunities	C	D	30.6%
Investors Research Fund	A	D	42.1
Ivy Growth Fund*	C	A	30.5
Janus Fund*	B	A	42.1
Japan Fund* (F)	B	B	3.1
JP Growth Fund	C	B	32.0
Kemper Growth Fund	A	D	65.9
Kemper International Fund (F)	C	C	9.0
Kemper Summit Fund	A	D	67.5
Kemper Technology Fund	B	D	41.3
Kemper Total Return Fund (B)	A+	F	39.6
Keystone America Omega	A	D	51.5
Keystone Custodian K-1 (B)	C	C	23.9
Keystone Custodian K-2	B	D	39.3
Keystone Custodian S-1	C	C	28.7
Keystone Custodian S-3	B	D	41.6
Keystone Custodian S-4	A	F	70.8
Keystone International Fund (F)	C	B	14.4
Keystone Precious Metals (F)	D	D	8.2
Kleinwort Benson Intl Equity (F)	C	C	11.2
Legg Mason Value Trust	B	B	34.7
Lexington Corp Leaders Trust Fund*	B	B	22.0
Lexington Goldfund* (G)	D	D	-6.2
Lexington Growth & Income Fund*	C	C	24.8
Lexington Worldwide Emerging Mkts*	C	F	24.1
Lindner Fund*	D	A+	23.4
Lord Abbett Developing Growth	C	D	56.3
Lord Abbett Value Appreciation	B	C	27.1
Lutheran Brotherhood Fund	C	A	32.8
Mairs & Power Growth Fund*	B	C	41.8
Horace Mann Growth Fund*	B	C	26.2
Mass Capital Development Fund	B	C	22.0
Mass Financial Development Fund	B	D	32.3
Mass Financial Emerging Growth	A+	D	69.2
Mass Financial Special Fund	B	D	25.6
Mass Financial Total Return Trust (B)	A	C	21.5
Mass Investors Growth Stock Fund	B	C	47.3
Mass Investors Trust	B	C	27.4
Mathers Fund*	D	C	9.4
Merrill Lynch Basic Value Fund	C	B	26.9
Merrill Lynch Capital Fund	C	A	24.8
Merrill Lynch Intl Holdings (G)	C	A	16.9
Merrill Lynch Pacific Fund (F)	A	C	16.8
Merrill Lynch Phoenix Fund (B)	B	C	36.6
Merrill Lynch Special Value	D	D	54.8

Fund	Performance in UP —markets—	DOWN	12-month total return
Mexico Fund* (F)	A	A+	72.5%
MSB Fund*	D	C	16.5
Mutual Benefit Fund	A	B	27.7
Mutual of Omaha Growth Fund	A	C	62.4
Mutual of Omaha Income Fund (B)	F	A	18.5
Mutual Series Fund—Beacon*	D	C	17.4
Mutual Series Fund—Mutual Shares*	D	A+	20.8
Mutual Series Fund—Qualified*	D	A+	21.0
National Industries Fund*	D	C	32.0
National Stock Fund	D	B	22.9
National Total Income Fund (B)	C	A	23.3
National Total Return Fund (B)	A	C	28.6
Nationwide Fund	B	B	30.2
Nationwide Growth Fund	B	B	36.0
N & B Guardian Fund*	B	C	34.3
N & B Manhattan Fund*	A	C	30.9
N & B Partners Fund*	D	A	22.4
N & B Selected Sectors Plus Energy*	D	C	24.7
Neuwirth Fund	A	F	50.3
New England Balanced Fund	D	A	29.2
New England Growth Fund	A	B	56.7
New England Retirement Equity	D	A	27.1
New Perspective Fund (G)	D	B	22.4
New York Venture Fund	A	C	39.3
Newton Growth Fund	B	D	25.6
Niagara Share Corp*	D	D	19.3
Nicholas Fund*	B	A	41.8
Northeast Investors Growth*	B	C	36.6
Oppenheimer Equity Income Fund	C	B	17.2
Oppenheimer Fund	C	F	28.5
Oppenheimer Global Fund (G)	B	C	27.2
Oppenheimer Gold & Special Mins (F)	C	C	0.2
Oppenheimer Special Fund	D	C	43.8
Oppenheimer Target Fund	C	D	38.4
Oppenheimer Time Fund	A	D	38.5
Oppenheimer Total Return Fund	B	C	35.4
Over-the-Counter Securities Fund	D	B	38.6
PaineWebber Atlas Global Growth (G)	A	B	10.4
Pax World Fund (B)	B	C	20.4
Penn Square Mutual Fund	C	B	27.1
Pennsylvania Mutual Fund	C	B	31.8
Permanent Portfolios—Permanent (B)	D	C	7.9
Petroleum & Resources Corp*	D	D	6.6
Philadelphia Fund	F	C	5.7
Phoenix Balanced Fund (B)	B	C	25.4

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

Fund	Performance in UP —markets—	DOWN	12-month total return
Phoenix Convertible Fund (B)	C	B	12.5%
Phoenix Growth Fund	B	A	26.9
Phoenix Stock Fund	C	B	28.3
Phoenix Total Return	D	A	28.7
Pilgrim MagnaCap Fund	C	C	24.8
Pine Street Fund*	C	C	23.7
Pioneer Fund	C	C	22.0
Pioneer II	C	C	25.4
Pioneer Three	C	B	36.3
T Rowe Price Growth & Income*	C	B	31.4
T Rowe Price Growth Stock Fund*	C	D	33.4
T Rowe Price Intl Stock* (F)	B	B	15.6
T Rowe Price New Era Fund*	D	D	14.4
T Rowe Price New Horizons Fund*	B	D	51.9
Princor Capital Accumulation Fund	D	A	37.2
Princor Growth Fund	A	D	56.2
ProvidentMutual Growth Fund	B	B	49.9
ProvidentMutual Investment Shares	D	B	15.4
ProvidentMutual Total Return Trust (B)	D	B	18.3
Prudential Equity Fund	C	B	24.0
Prudential Global Fund (G)	B	C	13.3%
Prudential Growth Fund	C	C	24.1
Prudential Growth Opportunity	B	D	39.4
Prudential Total Return	C	B	11.0
Prudential Utility Fund	D	A	19.9
Putnam Convertible Income-Growth (B)	C	D	29.3
Putnam Energy-Resources Trust	D	F	7.2
Putnam Fund for Growth & Income	C	B	18.9
George Putnam Fund of Boston (B)	A	D	22.9
Putnam Global Growth Fund (G)	B	C	18.0
Putnam Health Sciences Trust	A	D	47.9
Putnam Investors Fund	B	D	27.4
Putnam OTC Emerging Growth Fund	A	C	40.7
Putnam Strategic Income Trust	D	B	24.5
Putnam Vista Fund	A	B	36.5
Putnam Voyager Fund	A+	D	49.6
Quest for Value Fund	C	A+	32.2
Rea-Graham Balanced Fund (B)	C	C	14.5
Royce Fund—Value	D	B	30.7
Safeco Equity Fund*	B	C	27.9

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

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STOCK AND BALANCED FUNDS

THE FUNDS

Fund	Performance in UP	DOWN —markets—	12-month total return
Safeco Growth Fund*	B	C	62.6%
Safeco Income Fund*	D	A	23.3
Salomon Brothers Capital Fund	B	B	33.0
Salomon Brothers Fund*	C	B	30.8
Salomon Brothers Investors Fund	C	B	28.6
Salomon Brothers Opportunity Fund*	C	B	30.3
Sci/Tech Holdings	C	B	44.1
Scudder Capital Growth Fund*	A	C	42.2
Scudder Development Fund*	A	D	71.9
Scudder Growth & Income Fund*	C	C	28.1
Scudder International Fund* (F)	C	B	11.8
Security Action Fund	C	C	33.5
Security Equity Fund	A	D	34.6
Security Investment Fund	D	C	21.8
Security Ultra Fund	C	F	58.6
Selected American Shares	C	A	46.3
Selected Special Shares	B	D	24.7
Seligman Capital Fund	A+	D	53.7
Seligman Common Stock Fund	B	B	29.7
Seligman Growth Fund	B	D	38.2
Seligman Income Fund (B)	D	A	30.1
Sentinel Balanced Fund (B)	B	B	23.2
Sentinel Common Stock Fund	C	A	30.5
Sentinel Growth Fund	A	D	25.9
Sentry Fund*	B	D	28.6
Sequoia Fund*	D	A+	39.3
Shearson Appreciation Fund	B	B	26.9
Shearson Fundamental Value Fund	D	B	31.4
Shearson Global Opportunities (G)	C	C	12.6
Shearson Invest—Appreciation	D	B	23.5
Shearson Invest—Special Equities	D	D	45.1
Sit New Beginning Growth Fund*	A	C	65.5
Smith Barney Equity Fund	C	C	26.5
Smith Barney—Income & Growth	D	A	26.5
SoGen International Fund	D	A+	17.7
Source Capital*	D	A+	22.6
State Bond Common Stock Fund	B	D	33.2
State Bond Diversified Fund	C	B	31.2
State Street Investment Trust	B	C	28.1
SteinRoe Capital Opportunities*	B	F	62.7
SteinRoe Special Fund*	A	C	33.7
SteinRoe Stock Fund*	A	D	45.6
SteinRoe Total Return Fund* (B)	C	D	29.4
Strategic Investments Fund (F)	D	F	-18.9
Stratton Monthly Dividend Shares*	D	A+	34.8
Strong Investment Fund (B)	D	A	19.6%
Strong Total Return Fund (B)	C	B	33.6
Templeton Foreign Fund (F)	B	A	18.1
Templeton Growth Fund (G)	C	A	30.9
Templeton Smaller Companies Growth (G)	C	B	39.2
Templeton World Fund (G)	C	C	29.3
Transamerica Capital Appreciation	C	C	36.6
Transamerica Growth & Income (B)	C	B	32.1
Tri-Continental Corp*	B	C	28.6
20th Century Growth Investors*	A+	D	69.0
20th Century Select Investors*	A	C	31.4
20th Century Ultra Investors*	A+	F	86.5
UMB Stock Fund*	C	B	24.7
United Accumulative Fund	C	B	23.5
United Continental Income Fund (B)	A	D	25.9
United Income Fund	B	A	29.4
United International Growth (F)	C	A	19.0
United New Concepts Fund	B	C	88.2
United Retirement Shares (B)	B	C	21.7
United Science & Energy Fund	B	C	58.6
United Services—Global Resources* (G)	D	D	5.0
United Services—Gold Shares* (F)	D	D	-15.6
US Trend Fund	B	C	35.0
United Vanguard Fund	C	B	27.1
USAA Mutual—Aggressive Growth*	A	D	71.7
USAA Mutual—Growth Fund*	C	D	27.8
Value Line Fund*	B	C	48.2
Value Line Income Fund*	D	A	28.4
Value Line Leveraged Growth Inv*	B	B	44.0
Value Line Special Situations Fund*	D	D	36.1
Van Eck International Investors (F)	C	D	2.6
Vanguard Explorer Fund*	C	D	55.9
Vanguard Index—500 Portfolio*	B	C	30.1
Vanguard/Morgan Growth Fund*	B	C	28.4
Vanguard Small Cap Stock*	C	D	44.9
Vanguard Special—Gold & Prec (F)	D	C	4.3
Vanguard Trustees Commingled—Intl* (F)	A	A	9.8
Vanguard Trustees Commingled—US*	C	B	26.5
Vanguard Wellesley Income Fund* (B)	C	A+	21.4
Vanguard Wellington Fund* (B)	A	C	23.3
Vanguard Windsor Fund*	C	A	27.7
Washington Mutual Investors	B	A	23.3
Winthrop Focus Funds—Growth	D	D	28.0
WPG Growth & Income Fund*	C	C	40.7
WPG Tudor Fund*	A	C	51.0

*Fund has no load or shareholder-paid 12b-1 plan. B: Balanced fund. F: Foreign fund. G: Global fund.

Municipal bond funds

Single-state tax-exempt funds are rated here if they have five years of history and at least $100 million in assets. All other tax-exempt funds need at least five years of history and a minimum of $500 million to be listed. Each of the 60 months from January 1987 through December 1991 is taken as a bull or bear month, according to the performance of the Shearson Lehman municipal bond index. Composite bull- and bear-market performance is calculated for each fund and then translated into a letter grade, assigned on a curve.

Fund	Performance in UP —markets—	DOWN	12-month total return
AARP Insured T-F Inc—Genl Bond*	A	D	12.3%
Alliance Muni Income—Calif	C	A	11.0
Alliance Muni Income—New York	C	C	12.3
Benham Calif Tax-Free—Intermediate*	D	A	10.4
Benham Calif Tax-Free—Long-Term*	B	D	11.8
California Tax-Exempt Bonds	C	B	11.1
California Tax-Free Income Fund*	D	A	12.2
Colonial California Tax-Exempt	D	B	11.2
Colonial Tax-Exempt Fund	D	A	11.7
Dean Witter Calif Tax-Free Income	B	D	10.1
Dean Witter NY Tax-Free Income	B	D	12.7
Dean Witter Tax-Exempt Securities	A	D	12.6
Delaware Group Tax-Free—USA	C	C	12.4
DMC Tax-Free Income Trust—Pa	C	C	12.8
Dreyfus California Tax-Exempt Bond*	D	B	10.4
Dreyfus Intermediate Muni Bond*	D	A	11.1
Dreyfus Massachusetts Tax-Ex Bond*	D	B	12.7
Dreyfus NY Tax-Exempt Bond Fund*	D	B	11.7
Dreyfus Tax-Exempt Bond Fund*	D	B	11.9
Eaton Vance California Municipals	C	D	9.4
Eaton Vance National Municipals	D	C	12.1
Federated Tax-Free Income Fund	B	B	12.5
Fidelity Calif Tax-Free Insured*	C	D	10.9
Fidelity Calif Tax-Free High Yield*	C	C	10.2
Fidelity Mass Tax-Free High Yield*	D	B	11.3
Fidelity Michigan Tax-Free High Yield*	B	C	12.1
Fidelity NY Tax-Free High Yield*	C	B	13.4
Fidelity NY Tax-Free Insured*	C	C	12.5
Fidelity Ohio Tax-Free High Yield*	B	D	11.4
Fidelity Tax-Free—Aggressive*	D	A	11.8
Fidelity Tax-Free—High Yield*	C	B	8.8
Fidelity Tax-Free—Ltd Term Munis*	D	A	11.2
Fidelity Tax-Free—Municipal Bond*	B	C	11.9
First Investors Insured Tax-Exempt	D	A	10.3
First Investors NY Insured Tax-Free	C	B	11.5
Flagship Tax-Ex—Michigan Triple	A	D	11.6
Flagship Tax-Ex—NC Triple	A	F	11.7
Flagship Tax-Ex—Ohio Double	A	D	11.8
Franklin Calif Insured Tax-Free Income	B	D	10.8
Franklin Calif Tax-Free Income	D	A	10.9
Franklin Federal Tax-Free Income	B	C	13.2%
Franklin High Yield Tax-Free Income	D	A	12.4
Franklin Insured Tax-Free Income	B	D	11.3
Franklin Mass Insured Tax-Free Income	C	D	11.4
Franklin Mich Insured Tax-Free Income	B	C	10.9
Franklin Minn Insured Tax-Free Income	C	C	10.8
Franklin NY Tax-Free Income	D	B	13.5
Franklin Ohio Insured Tax-Free Income	B	C	10.9
Franklin Penn Tax-Free Income	B	D	13.4
Franklin PR Tax-Free Income Fund	C	B	12.2
General NY Municipal Bond	D	A	14.1
Hawaiian Tax-Free Trust	D	A	10.5
IDS California Tax-Exempt Fund	C	C	11.1
IDS High Yield Tax-Exempt Fund	C	B	12.0
IDS Minnesota Tax-Exempt Fund	C	C	10.6
IDS Tax-Exempt Bond Fund	A	D	10.1
Kemper California Tax-Free Income	B	B	11.4
Kemper Municipal Bond Fund	A	C	12.7
Kemper New York Tax-Free Fund	C	C	13.4
Keystone Tax-Exempt Trust	B	D	10.9
Keystone Tax-Free Fund	C	B	10.8
Lord Abbett Calif Tax-Free Income	B	C	13.2
Lord Abbett Tax-Free Income—New York	C	B	13.5
Merrill Lynch Calif Muni Bond	C	C	10.3
Merrill Lynch Muni—High Yield	C	C	11.5
Merrill Lynch Muni—Insured*	B	C	11.2
Merrill Lynch NY Muni Bond	B	C	13.4
MFS Managed High Yield Muni Bond	D	A	10.4
MFS Managed M-S Tax-Ex—Md	C	C	10.0
MFS Managed M-S Tax-Ex—Mass	C	B	11.7
MFS Managed M-S Tax-Ex—NC	C	B	10.4
MFS Managed M-S Tax-Ex—Va	C	B	10.4
MFS Managed Municipal Bond	A	C	12.7
New York Muni Fund	B	F	15.7
Nuveen Calif Tax-Free—Spec Bond	B	C	11.1
Nuveen Insured Tax-Free Bond—NY	B	C	13.4
Nuveen Municipal Bond Fund	C	B	11.4
Oppenheimer New York Tax-Exempt	D	A	11.6
Pacific Horizon—Calif Tax-Ex Bond	D	B	10.3
PaineWebber California Tax-Free Income	C	B	11.0

*Fund has no load or shareholder-paid 12b-1 plan.

Fund	Performance in UP	DOWN —markets—	12-month total return
Premier California Municipal Bond	B	C	11.0%
T Rowe Price Tax-Free High Yield*	D	A	11.7
T Rowe Price Tax-Free Income Fund*	C	D	12.2
Prudential Calif Municipal	C	D	11.3
Prudential Muni—New York	C	D	13.5
Prudential National Municipals	B	D	12.9
Putnam Calif Tax-Exempt Income	B	B	11.4
Putnam New York Tax-Exempt Income	A	C	14.2
Putnam Ohio Tax-Exempt Income	C	C	9.9
Putnam Tax-Exempt Income Fund	A	D	12.7
Putnam Tax-Free Income—High Yield	D	A	11.6
Scudder California Tax-Free Fund*	A	C	12.7
Scudder Managed Municipal Bonds*	A	D	12.2
Scudder NY Tax-Free Fund*	B	C	14.4
Seligman Tax-Exempt—Mass	A	D	13.0
Seligman Tax-Exempt—Michigan	A	D	12.0
Seligman Tax-Exempt—Minnesota	B	D	7.5
Seligman Tax-Exempt—Ohio	A	D	11.7
Shearson California Municipals	C	B	11.5
Shearson Income—Tax-Exempt Income	C	B	11.3
Shearson Managed Municipals	B	C	14.2

Fund	Performance in UP	DOWN —markets—	12-month total return
Shearson New York Municipals	D	B	13.0%
Spartan Pennsylvania Muni High Yield*	A	D	12.5
SteinRoe Managed Municipals*	B	B	11.6
Tax-Exempt Bond Fund of America	C	C	10.8
Tax-Exempt Fund of California	B	D	9.9
Tax-Free Trust of Arizona	C	B	11.7
Tax-Free Trust of Oregon	C	B	11.0
United Municipal Bond Fund	A+	F	13.4
USAA Tax-Exempt—High Yield*	A	C	12.4
USAA Tax-Exempt—Intermediate*	D	A	11.1
Van Kampen Merritt Insured T-F	C	C	10.5
Vanguard California T-F—Insured L-T*	A	F	10.8
Vanguard Muni Bond—High Yield*	A+	D	14.7
Vanguard Muni Bond—Insured L-T*	A	D	13.2
Vanguard Muni Bond—Intermediate*	C	B	12.2
Vanguard Muni Bond—Long-Term*	A+	F	13.5
Vanguard Muni Bond—Short-Term*	F	A+	7.3
Vanguard New York Insured T-F*	A	D	12.6
Vanguard Penn Tax-Free—Insured L-T*	A+	D	11.9
Voyageur Minnesota Tax-Free Fund	D	A	11.1

*Fund has no load or shareholder-paid 12b-1 plan.

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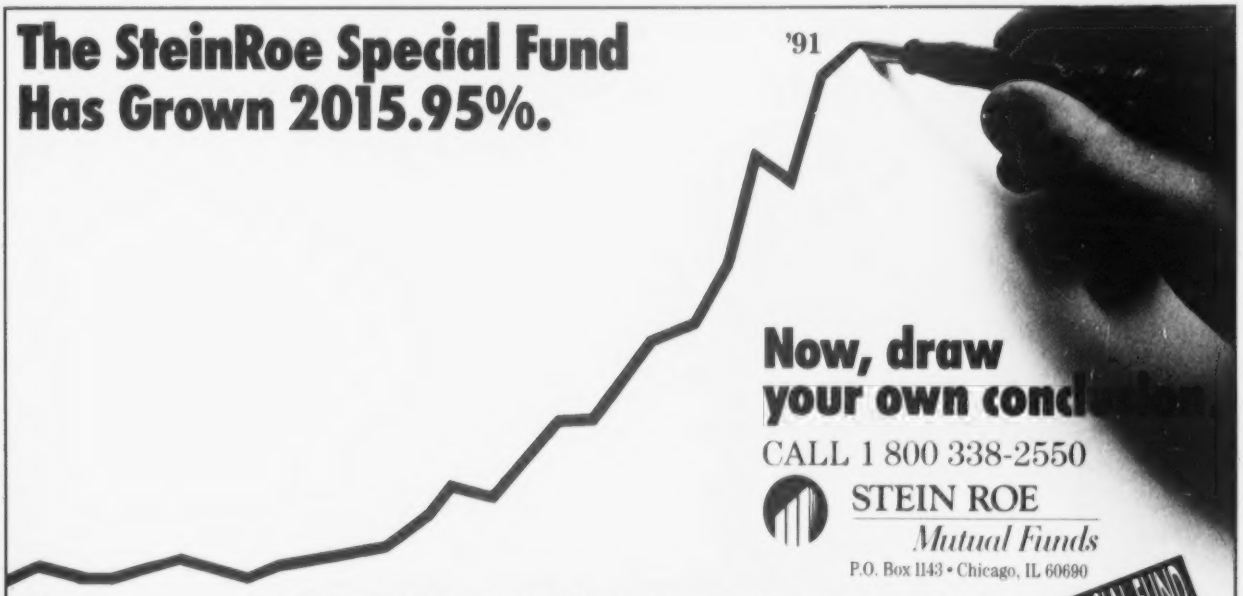

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Taxable bond funds

Falling interest rates made 1991 a terrific year for bond funds, especially the ones that hold long-term bonds. Of course, the prices of the longest-term bonds will also fall hardest if rates go back up.

Thus, as we do for stock funds, we rate fixed-income funds separately in bull and bear markets. Like equity fund managers, bond fund managers are rarely able to shine in both up and down markets. Portfolios with the shortest maturities tend to get a D or F in bull markets (when interest rates fall) and an A or B in bear markets (when rates rise). The reverse is true for long-maturity portfolios.

To be rated below, a high-grade bond fund must have $100 million or more in assets and at least five years of history. Junk bond funds are scored by a separate system; a minimum of two full market cycles is required. This comes to not quite four years of history.

Fund	Performance in UP —markets—	DOWN	12-month total return
AARP Income—GNMA & US Treas*	D	B	14.4%
AARP Income—High Quality Bond*	C	C	15.4
Advantage Government Securities	D	C	14.7
Alliance Bond—High Yield (J)	C	D	33.0
Alliance Bond—US Government	C	B	15.7
Alliance Mortgage Securities Income	C	B	15.4
American Capital Bond Fund *	C	D	15.8
American Capital Corp Bond Fund	D	A	16.7
American Capital Government Secs	A	D	16.2
American Capital High Yield Inv (J)	B	D	41.3
AMEV Securities*	D	A	22.7
AMEV US Govt Securities Fund	C	B	13.9
Babson Bond—Portfolio L*	C	C	15.1
Bartlett Capital Trust—Fixed Income*	D	B	14.3
Benham GNMA Income*	B	C	15.6
Benham Target Maturities—2005*	A+	F	21.5
Benham Target Maturities—2015*	A+	F	22.5
Benham Treasury Note Fund*	C	C	13.7
Bond Fund of America	C	B	21.0
Cardinal Government Obligations	D	A	13.3
Cigna High Yield Fund (J)	B	A	42.4
Cigna Income Fund	A	D	17.9
Colonial Government Securities Plus	A	D	14.7
Colonial High Yield Securities Trust (J)	B	B	43.9
Colonial Income Trust	D	B	19.0
Columbia Fixed Income Securities*	B	C	16.1
Composite US Govt Securities	C	B	14.7
Dean Witter High Yield Secs (J)	B	F	66.8
Dean Witter US Govt Securities	D	A	11.2
Delaware Group Delchester H-Y—I (J)	A	B	43.9
Delaware Group Govt—Govt Inc II	C	B	15.2
Dreyfus A Bonds Plus*	A+	D	18.6
Dreyfus GNMA Fund	C	B	14.4
Eaton Vance Government Obligations	D	A	14.3
Eaton Vance High Income Trust (J)	D	B	38.2

Fund	Performance in UP —markets—	DOWN	12-month total return
Federated GNMA Trust*	A	C	15.4%
Federated High Yield Trust* (J)	A	C	52.5
Federated Income Trust*	D	A	13.9
Federated Intermediate Government*	D	A	13.4
Federated Short-Intermed Govt*	F	A+	10.4
Fidelity Capital & Income Fund (J)	D	B	29.8
Fidelity Flexible Bond Port*	B	C	18.9
Fidelity Ginnie Mae*	C	B	13.5
Fidelity Government Securities Fund*	C	B	16.0
Fidelity Intermediate Bond Fund*	D	B	14.5
Fidelity Mortgage Securities*	C	B	13.6
Fidelity Short-Term Bond Port*	F	A+	13.7
First Investors Fund for Income (J)	C	D	44.3
First Investors Government Fund	A	D	16.7
First Investors High Yield Fund (J)	D	D	35.2
First Trust Fund—US Government	B	B	15.4
Fort Dearborn Income Securities*	A	D	18.3
Franklin AGE High Income Fund (J)	A	D	47.6
Franklin US Government Securities	D	A	13.6
Freedom Inv—Government Income	A	D	14.4
Fund for US Govt Securities	D	A	13.4
Government Income Securities	D	A	13.1
John Hancock Bond Fund	C	B	16.5
John Hancock Government Spectrum	B	C	16.5
John Hancock Income Securities*	B	C	17.1
John Hancock Investors Trust*	B	C	17.9
John Hancock US Govt Securities	D	B	12.5
Home Investors Government Income	B	C	14.3
IAI Bond Fund	A	D	17.3
IDS Bond Fund	B	D	20.7
IDS Extra Income Fund (J)	C	C	38.1
IDS Federal Income Fund	D	A	11.0
IDS Selective Fund	B	D	17.0
IDS Strategy—Income	B	D	16.6
InterCapital Income Securities*	D	B	19.8

*Fund has no load or shareholder-paid 12b-1 plan. J: Junk bond fund.

Fund	Performance in UP —markets—	DOWN	12-month total return
Kemper Diversified Income Fund (J)	A	C	51.3%
Kemper High Yield Fund (J)	A	B	46.5
Kemper Inc & Cap Preservation	C	B	17.9
Kemper Invest—Diversified Income	D	A	50.5
Kemper Invest—Government	B	D	17.0
Kemper Invest—High Yield (J)	B	C	45.6
Kemper US Government Securities	B	C	17.2
Keystone Custodian B-1	C	D	14.8
Keystone Custodian B-2	D	C	18.5
Keystone Custodian B-4 (J)	C	D	41.1
Lexington GNMA Income Fund*	A	D	15.0
Liberty High Income Bond Fund (J)	A	C	59.8
Lord Abbett Bond-Debenture Fund (J)	C	A	38.1
Lord Abbett US Government Secs	A	D	16.6
Lutheran Brotherhood Income Fund	B	C	17.2
MainStay—Government Plus	C	C	13.3
MainStay—High Yield Corp Bond (J)	D	B	31.9
Mass Financial Bond Fund	B	C	18.0
Mass Financial High Income—Series I (J)	B	C	48.4
MassMutual Corporate Investors*	F	A+	18.3
Merrill Lynch Corp—High Income (J)	B	A	39.8
Merrill Lynch Corp—High Quality	B	C	17.1
Merrill Lynch Federal Securities	C	B	13.6
MetLife-State Street High Income (J)	C	C	36.3
MFS Government Income Plus	B	D	13.2
MFS Government Securities	D	C	14.1
MFS Lifetime Government Income +	C	D	11.7
MFS Lifetime High Income Trust (J)	A	D	49.5
Montgomery Street Income Secs*	C	A	22.0
National Bond Fund (J)	C	D	50.9
National Federal Securities Trust	A	F	19.9
N & B Limited Maturity Bond*	D	A+	11.8
New England Government Securities	A	F	14.8
Northeast Investors Trust*	F	A	26.3
Oppenheimer High Yield Fund (J)	F	A	28.5
Oppenheimer US Government Trust	D	B	14.6
Pacific American Income Shares*	C	B	20.3
PaineWebber Fixed Income—High Inc (J)	B	C	45.4
PaineWebber Fixed Income—Inv Gr	B	D	18.0
PaineWebber Fixed Income—US Govt	B	D	14.6
PaineWebber Income Fund	B	D	23.0
Pilgrim GNMA Fund	D	B	11.8
Pilgrim S-T Multi-Market Income	F	C	1.4
T Rowe Price GNMA Fund*	C	B	15.0
T Rowe Price High Yield Fund* (J)	D	B	30.9
T Rowe Price New Income Fund*	C	B	15.5

Fund	Performance in UP —markets—	DOWN	12-month total return
T Rowe Price Short-Term Bond Fund*	D	A+	11.2%
Prudential GNMA Fund	C	C	12.7
Prudential Government Plus	B	D	15.2
Prudential Govt Secs—Intermed	D	B	13.0
Prudential High Yield Fund (J)	C	C	34.5
Prudential US Government	A	D	15.5
Putnam Federal Income Trust	B	D	15.2
Putnam High Income Government	B	D	9.1
Putnam High Yield Trust (J)	C	A	38.9
Putnam High Yield Trust II (J)	B	B	45.4
Putnam Income Fund	B	C	18.3
Putnam US Govt Income Trust	D	A	11.8
Scudder GNMA Fund*	C	B	15.0
Scudder Income Fund*	B	C	17.3
Scudder Short Term Bond Fund*	C	C	14.4
Shearson High Yield Fund (J)	D	B	33.3
Shearson Income—High Income (J)	D	C	34.7
Shearson Income—Mortgage	C	C	17.0
Shearson Invest—Govt Securities	B	D	16.2
Shearson Invest—Invest Grade Bond	A+	F	22.8
Shearson Managed Governments	C	B	16.2
Smith Barney—US Government	A	D	16.2
SteinRoe Intermediate Bond Fund*	C	C	14.8
SunAmerica Equity—US Government Secs	F	A+	9.9
Thomson Fund—Income	D	A	11.8
Thomson Fund—US Government	C	C	16.7
Transamerica Govt Securities	B	D	16.5
Transamerica Income Shares*	A	C	18.3
20th Century US Governments*	D	A	11.6
United Bond Fund	B	C	18.7
United Government Securities	B	D	17.0
United High Income Fund (J)	C	D	37.2
United High Income Fund II (J)	D	A	31.3
US Government Securities	D	B	14.1
USAA Mutual—Income Fund*	A	C	19.2
Value Line US Government Secs*	C	B	16.3
Van Kampen Merritt High Yield (J)	C	C	35.1
Van Kampen Merritt US Government	A	D	15.8
Vanguard Bond Market Fund*	B	C	15.3
Vanguard Fixed Income—GNMA*	A	C	16.8
Vanguard Fixed Income—High Yield* (J)	D	A	29.2
Vanguard Fixed Income—Invest Grade*	A+	D	20.9
Vanguard Fixed Income—Short-Term*	D	A	13.2
Vanguard Fixed Income—US Treasury*	A+	F	17.4
WPG Government Securities Fund*	B	B	16.6

*Fund has no load or shareholder-paid 12b-1 plan. J: Junk bond fund.

THE FORBES/BARRA WALL STREET REVIEW

BY GILBERT STEEDLEY

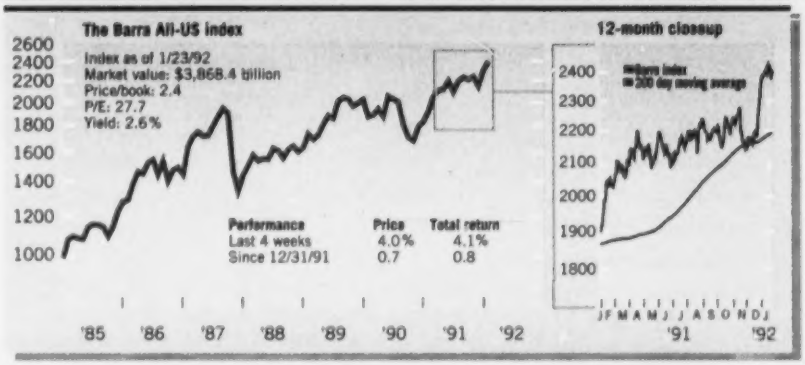
The air is getting pretty thin up where the stock market is flying. The Barra All-US index is now selling at 27 times trailing 12-month earnings. Earnings are supposed to be on the way up. But does anybody think they're likely to double or triple anytime soon? Yet that's what must happen if the market is to sell at reasonable levels by historical standards.

Jonathan Braatz, a senior vice president of Kansas City, Mo.-based Fahnestock & Co., cautions against rating the entire market as overpriced. "There are a number of stocks that are exaggerating the P/E in the overall market," he says, citing Microsoft, Home Depot and Wal-Mart. Braatz says investors should be buying smaller, slower-growing companies. Two he likes are AG Services of America, a provider of agricultural supplies, trading at 8 times earnings, and Big B, a discount drugstore chain, trading at 16 times earnings.

Another way to play this market is to look for turnaround situations. Citicorp, the largest U.S. bank, reported a loss of $457 million for 1991. Ray of hope: In the fourth quarter it lost only $133 million, against $382 million in the fourth quarter of 1990. Recently at 15, Citicorp shares are up 74% from their 52-week low. But Morton L. Brown, a general principal of St. Louis-based Edward D. Jones & Co., thinks the stock will continue to rise. Brown believes that Citicorp's cost-cutting will pay off this year and says: "Its strong position in international banking as well as the U.S. consumer market should lead to positive earnings in 1992."

After hitting record highs in mid-January, Wall Street backed off and attempted to digest some of its gains. The Barra All-US index finished the two weeks ended Jan. 24 with a 0.4% loss. But some stocks kept climbing. Value Line, Inc., which publishes stock market investment information, saw its shares rise 47% in the last two weeks. At a recent 39, they are trading at triple their price of a year ago.

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-0.4%	28.9%	-1.9%
Sharpe/Barra Growth index[1]	-2.4	32.7	-3.4
Sharpe/Barra Value index[2]	1.4	22.4	-1.9
Dow Jones industrials	0.5	21.3	-1.2
S&P 500	-0.6	24.0	-1.4
NYSE	-0.6	25.3	-1.3
Nasdaq	0.5	59.2	-1.3
Amex	1.6	35.1	-0.3
EAFE[3]	-2.1	9.0	-19.4
CRB index[4,5]	1.2	-1.6	-22.5
Gold[5]	-0.6	-4.7	-29.4
Yen[5]	-1.5	-6.3	-24.5
Oil[5]	4.8	-26.1	-54.6

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Value Line	38 1/4	47%	$ 2.75	Employee Benefit Plans	27 3/8	-55%	$2.07
Citicorp	14 3/4	41	1.05	Research Inds	18 1/4	-32	0.40
Network General	22 3/4	40	0.88	Data General	12	-29	1.97
Informix	25	40	0.94	Dissonics	19 1/8	-26	1.98
Viratek	22	40	NA	Corning	61 1/4	-22	3.75

The best and worst performing industry factors[8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Tire & rubber	7.7%	6.3%	Pharmaceuticals	-6.4%	-4.0%
Oil services	7.0	-6.0	Beverages	-6.1	-3.1
Forest products	6.9	15.1	Electric utilities	-4.3	-4.8
Consumer durables	6.4	7.4	Health Care	-4.2	-4.2
Electronics	5.6	8.3	Tobacco	-3.9	0.2

Note: Data for period ending 1/23/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

FORBES/TUCS INSTITUTIONAL PORTFOLIO

BY STEVE KICHEN

Who made the most money?

Investment	Value of $10,000 invested 12/31/81[1]	Change last quarter
S&P 500	$50,289	8.4%
Wilshire Index	45,587	8.7
Institutional equity account[2]	41,655	7.8
Institutional balanced account[2]	38,456	6.5
Lehman Government & Corporate	36,092	5.3
Institutional fixed income account[2]	34,036	5.3
Treasury index	21,312	1.5

Segment performance and cash flow

Segment	Most recent quarter: median total return	Most recent quarter: shift in institutional holdings
Equity	8.3%	-0.1%
Fixed income	5.4	-0.3
Cash equivalents	1.3	-4.8
Convertibles	4.6	1.0
Other[3]	1.4	0.0*
Total	7.6	-0.5

If you missed the 1991 rally in small growth stocks, you have some distinguished company. Professional money managers last year averaged a 31.6% total return (price change plus reinvested dividends) on their equity portfolios. Good as it was, that return falls short of the 34.2% delivered by the Wilshire index, a yardstick that measures the performance of 6,000 stocks, most of them stocks of small companies.

The pros did manage to beat the yardstick for large companies, Standard & Poor's 500-stock index. That index showed a 1991 total return of 30.5%. But the institutions didn't come anywhere close to matching the Nasdaq index of over-the-counter companies, most of them small. The Nasdaq was up 59.4% last year, dividends included.

Smaller growth stocks, despite their recent rally, have not kept pace with large-capitalization shares over the past ten years. A hypothetical $10,000 investment in growth stocks (as defined by Santa Monica, Calif.-based Wilshire Associates) would be worth $30,300 today. The same investment made in the S&P 500 would have grown to $50,300. Institutional managers evidently put too much faith in growth and not enough in size. The median institutional equity account would have turned $10,000 into $41,700 in ten years.

Our tables of institutional investing behavior come from Wilshire's survey of 5,000 pension portfolios, which it calls the Trust Universe Comparison Service.

What the institutions bought and sold

Big stocks[4]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Amoco	30.4%	43	Aflac[5]	11.5%	17
Avon Products	4.3	16	Bowater Ltd	7.6	NM
Dexter	9.7	NM	Cox Occidental Petroleum	10.5	NM
Chambers Development	16.7	44	Citizens Utilities	20.3	17
CUC International	8.8	39	Cominco	3.4	NM
Duracell International	26.0	45	Hillenbrand Industries	38.6	29
KLM Royal Dutch Airlines	43.5	NM	LAC Minerals Ltd	6.3	NM
Office Depot	48.5	NM	LG&E Energy	9.8	12
RJR Nabisco Hldgs	-6.5	47	McDonnell Douglas	13.9	13
Safeway	-4.7	14	NationsBank[6]	15.2	11
20th Century Industries	4.2	9	TransCanada Pipeline	6.5	13
US Bioscience	102.6	NM	Westcoast Energy	4.8	15

Secondary stocks[7]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Calgene	58.4%	NM	Amdura	137.5%	NA
Computone	69.7	NM	American Biogen	25.9	29
B-III Apparel Group	-10.0	27	Bio-Technology General	23.2	NM
Bolivar Industries	52.9	30	Carolco Pictures	-68.1	NM
Outlook Graphics	42.6	18	Comprehensive Care	-11.1	NM
Peoples Telephone	56.0	34	Digital Systems Intl	34.2	16
Society For Savings Bancorp	-7.4	NM	Duskocil Cos	-48.4	NM
Suburban Bancorp	-15.2	14	IDEC Pharmaceuticals	-30.7	NM
Sulcus Computer	128.0	NM	In Focus Systems	-25.0	10
Timberland	10.6	16	K Swiss	-21.3	12
Universal International	-28.2	27	Raymond	-7.7	NM
Western Bank	13.5	10	Ziegler	67.2	15

[1]Total return. [2]Includes cash. [3]Real estate, foreign investments, venture capital, guaranteed income contracts. [4]Stocks with $1 billion or more in market capitalization at start of quarter. [5]Formerly American Family. [6]Formerly NCNB. [7]Stocks with market capitalization between $40 million and $200 million at start of quarter. *Less than 0.05 percent. NA: Not available. NM: Not meaningful. Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 12/31/91. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.

Events in the former Soviet Union could give a huge boost to world commodity prices and get world inflation speeding up again.

An economy in trauma

BY JOHN BRIMELOW

John Brimelow is director of international equities for BV Capital Markets, Inc., the New York brokerage arm of Bayerische Vereinsbank, Germany's third-largest bank.

THE LEADING Soviet export of recent times has been surprises. A special one may even now be in the gift-wrapping stage. A process currently under way in the territories of the former U.S.S.R. could trigger a commodity price boom as powerful (and cruel to bears) as the great markets of 1972-73 and 1987-88. The consequences for recently unfashionable natural resource equities could be dramatic.

Over the last couple of years an unprecedented flood of commodity shipments from the Soviet Union has swamped markets and sent prices reeling. As Wall Street and the business press have realized this, the conventional wisdom has inevitably formed that these shipments will continue.

In fact, Soviet behavior is even more influential than generally recognized. Markets like cocoa, lead, zinc and tin, where Soviet purchases were normally significant, have been faltering for lack of this traditional demand. Economic revival in Eastern Europe is also being delayed by the weakening of Soviet demand.

Clearly, the former Soviet territories are in extreme economic trauma. All the classic symptoms are there—barter, hoarding, massive intensification of extralegal economic activity, loss of respect for the local currency. Indeed, the immediate cause of the commodity flood is the panicky desire on the part of people in the old Soviet territories to get their hands on foreign currency. Breaking the normal production chain and shipping overseas is irresistibly attractive to enterprising individuals now that they seem unlikely to be shot for it. Never mind that local factories are deprived of the raw materials they need; get foreign currency at any cost.

But none of this is new. Economies in extreme trauma have been seen several times this century—Germany and Japan after World War II and Russia itself after the revolution, for example. The phenomenon has been lucidly discussed by UCLA's Professor Jack Hirshleifer in his *Economic Behavior in Adversity* (University of Chicago Press).

The key point: When things get bad enough, even the most deranged governments (like Lenin's Bolsheviks) come to their senses. And then the magnitude of the recovery can be enormous *(see table)*.

Industrial production index

Country	Base year	Low	Recovery high	Rebound from low
Germany	1928	1946—33	1949—74	124.2%
Japan	1934-36	1946—31	1949—71	129.0
Russia	1913	1921—13	1924—49	276.0

Base year equals 100.
Source: Jack Hirshleifer, *Economic Behavior in Adversity.*

The magnitude of a country's economic recovery from trauma can be enormous, as these three examples prove.

Don't fixate on the issue of how long it will take to bring Russia up to Western European production levels. This is the wrong question for the commodities markets. Even a return to something like Brezhnevian levels of inefficiency would still have profound implications for the area's propensity to consume or export many raw materials.

Other factors could intensify this coming swing. For example, energy was notoriously underpriced under the communists. This has led to the anomalous situation of a flood of energy-intensive metal exports, such as aluminum and ferroalloys, from a country supposedly short of energy. Any move to world energy prices could suddenly shut off this supply.

The swing will also be exaggerated by the so-called inventory effect. Generally, worldwide commodity consumption exhibits only sluggish trends. Changes in inventory preferences are what make commodities interesting. Right now, world industry is complacent, confident of a world slowdown and raw-material oversupply courtesy of the ex-Soviet Union. Add some measure of world recovery to the changes I foresee in Russia, and purchasing managers could be headed for a hectic time.

All this, of course, could bring bad news on the inflation front. I suspect that "noise" from the Soviet Union's liquidation process has been suppressing a measure of price inflation that would otherwise have shown up in the indexes. Eliminate this effect, and sentiment could change sharply.

Obvious beneficiaries: nickel and aluminum equities like Inco, Alcan, Alcoa. The platinum and gold sectors, which have felt the Russian bootprint as deeply as any, could do better. Not only would they benefit from a shift in the demand/supply balance, but a change in inflation expectations would boost them even more.

Rustenberg and Impala are the outstanding platinum plays. There is more choice in gold: I like Newmont, Franco-Nevada and Euro-Nevada.

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Here come the real estate tax shelters again

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March 2, 1992 Four Dollars

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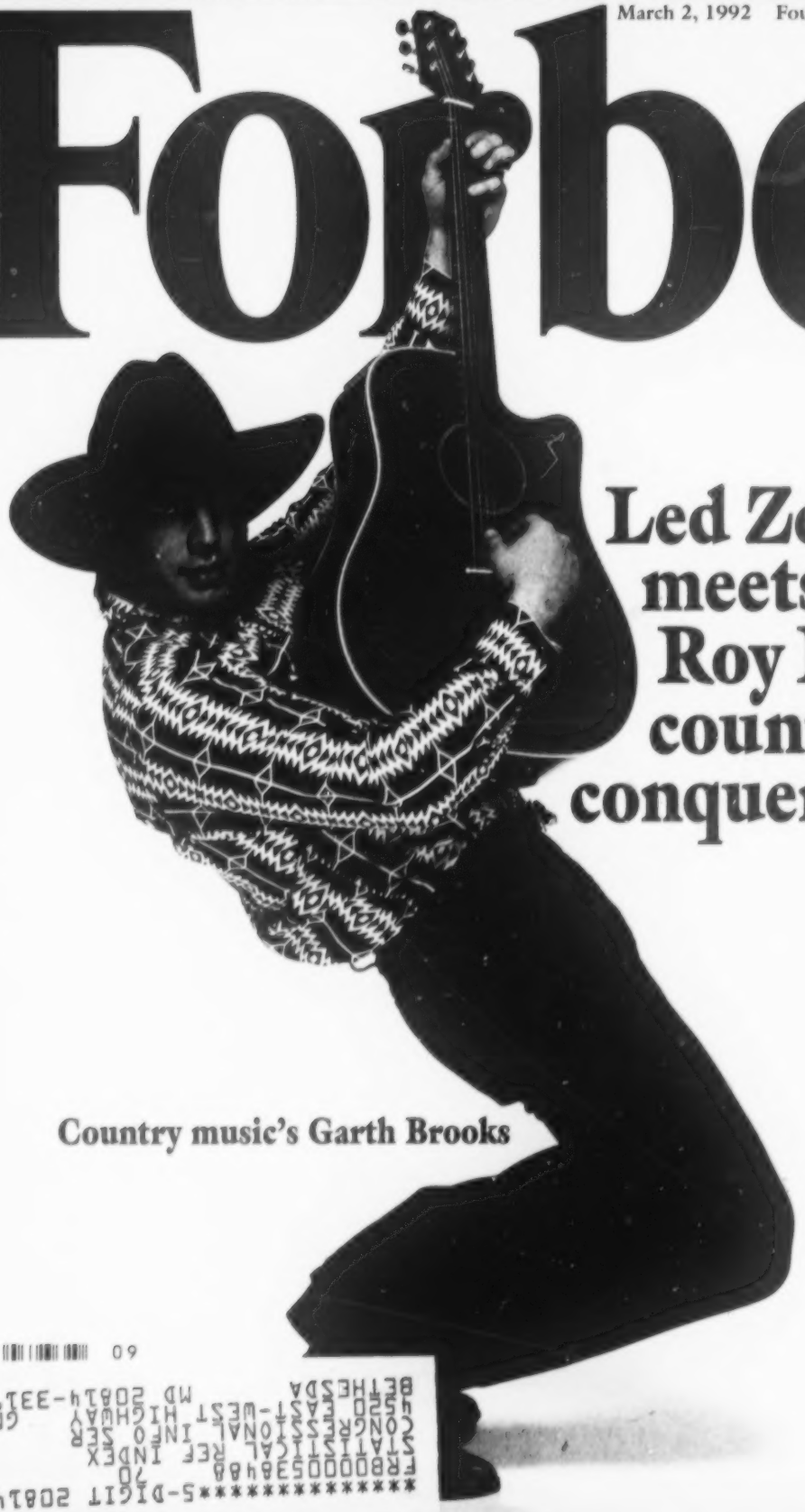

Led Zeppelin meets Roy Rogers... country conquers rock

Country music's Garth Brooks

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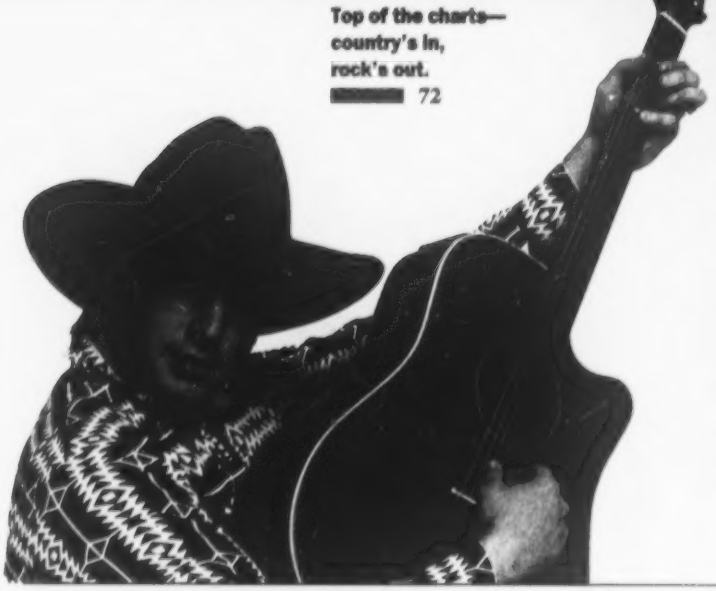

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Cover photo by Beverly Parker

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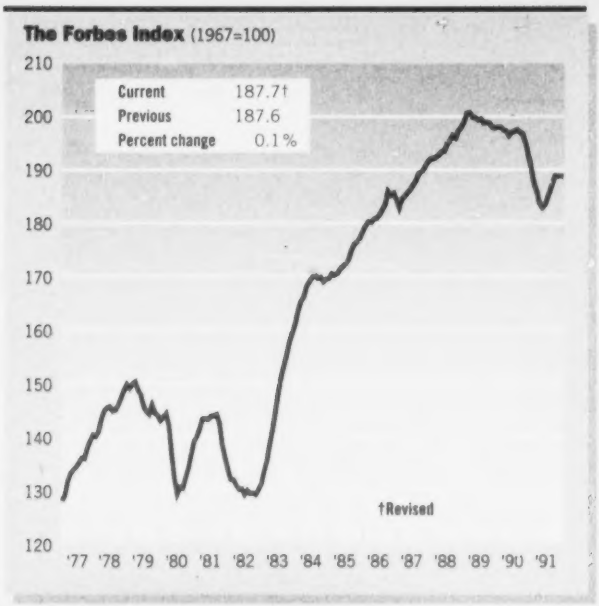
THE FORBES INDEX

BY TIMOTHY DODMAN



There's one silver lining in the consumer's reluctance to spend. In December Americans reduced their nonmortgage debts by $1.7 billion. That leaves some untapped borrowing capacity that could turn into auto and appliance purchases in the future. Part of the decrease may be attributed to uneasiness about the future, but lower interest rates are indirectly playing a role. With the low returns available from savings accounts and CDs, consumers are deciding that it makes more sense to use their savings to pay off older, higher-rate loans.

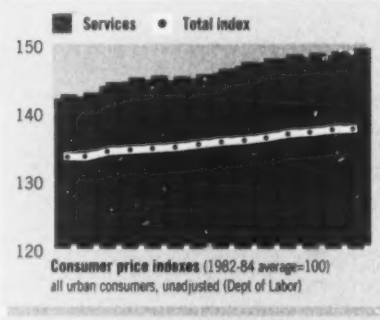
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	-0.9%
Index of leading indicators Dec vs Nov	Dept of Commerce	-0.3%
Trade balance 12 months ended Nov 1991	Dept of Commerce	-$65 bil
All-commodity producer price index Dec vs Nov[2]	Dept of Labor	-0.4%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.3%
M2 (3-month change)—annualized growth[3]	Federal Reserve	3.1%

[1] U.S.-based manufacturers, excludes imports, as of 1/30/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

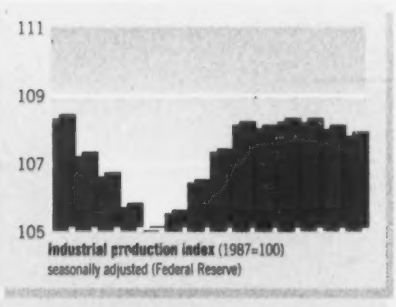
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

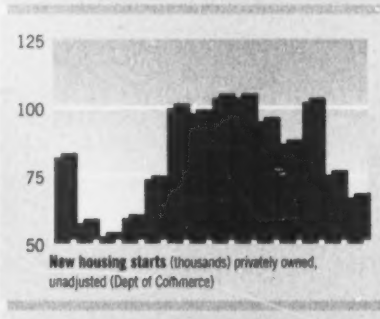


Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

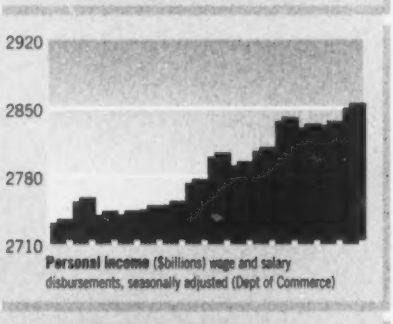
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

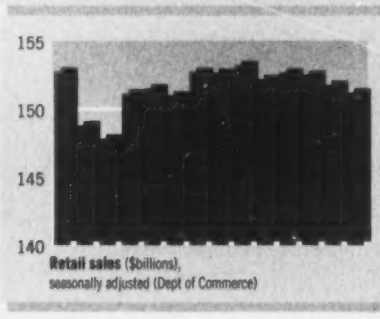


New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)

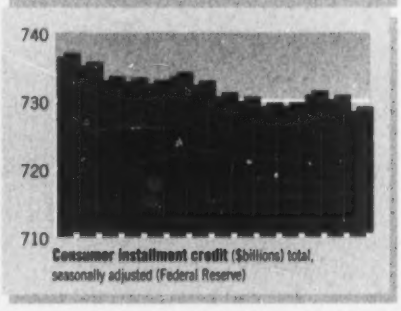


Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

N D J F M A M J J A S O N D N D J F M A M J J A S O N D N D J F M A M J J A S O N D

As investors got sheared by overpriced junk bonds in the latter 1980s, so they now stand in danger of overpaying for the equity issues that are hitting the market as companies deleverage.

Junk equity

By Richard L. Stern and Tatiana Pouschine

FOR EVERY SEASON there is a financial fashion. In the 1980s debt was in vogue and the smart people on Wall Street made fortunes trading debt for the public's equity. Now debt is passé and equity is all the rage, and the same smart people are making second fortunes by selling equity back to the public, at much higher prices than what they paid just a few years ago.

The game is called reverse leveraged buyouts, and no one plays it better than the people at Kohlberg Kravis Roberts. In 1987 and 1988 KKR bought four companies—Duracell International, AutoZone, Owens-Illinois and Stop & Shop. KKR's total equity investment in these four companies was about $690 million. Last year KKR took all four public, racking up an estimated $4.4 billion, mostly in paper profits for itself and for fellow investors in its buyout pools. That's a 600%-plus return in five years. And we're not even counting at least $100 million in fees KKR took for itself before the companies went to the market.

That's not all. KKR and its coinvestors have made something like $4 billion from two other deals not on the 1991 new-issues list: RJR Nabisco and Safeway. Not counting the fees, the principals at KKR keep a fifth of the $8.4 billion in profits, or about $1.7 billion on paper so far.

Lesser LBO lights are faring nicely, too. At recent stock prices, Clayton & Dubilier partnerships are sitting on cash and paper worth $444 million from two 1991 issues—industrial pump maker BWIP Holding and the Scotts Co., a fertilizer and grass seed company. Clayton & Dubilier's original equity investments? Under $30 million.

In two relatively small 1991 deals—Alta Health Strategies, health care cost consultants, and Zilog, in integrated circuits—Warburg, Pincus also has done brilliantly, turning an original investment of about $27 million into $160 million on paper in less than six years. And so it goes.

Behind these stunning profits is not theft but the clever use of other people's money. The KKRs of the world have arbitraged brilliantly between two markets—debt and equity—over several years. Back in the 1980s investors were hungry for high-yielding junk bonds and allowed the dealmakers to use minimal cash down payments and lots of debt to take companies private. In the early days of the LBO craze, the dealmakers even bought equity on the cheap because the markets, particularly in terms of cash flow, were undervaluing the stocks of the publicly traded companies they took private. Only later in the 1980s did the buyout game get so crowded that assets were overpriced and debt undercollateralized—junk bonds really did become junk.

Now the situation has reversed, and the sheep are coming back to be shorn. With interest rates low and stocks high, the new-issues market is providing the dealmakers with the cash to wipe their balance sheets clean of some of the high-priced junk debt and to take huge profits on their small equity investments as the market applauds their reequitization.

Sell them while they're hot

Company/dealmakers	Offer date	Price offer	Price recent	% change from offer stock	% change from offer S&P	P/E at offer	P/E current	Market value ($mil)
Duracell International/KKR	5/1	15	33⅛	121%	8%	83	41	$3,702
AutoZone/KKR	4/1	11½	40	248	11	23	56	2,770
Owens-Illinois/KKR	12/11	11	13⅜	22	5	NA	35	1,591
International Specialty Products/GAF	6/24	15½	15	-3	8	29	24	1,498
MGIC Investment/Northwestern Mutual	8/6	24	40¼	68	5	10	15	1,183
Enquirer/Star Group/Boston Ventures, Macfadden, NAPI	7/19	14	20¼	45	7	8	NM	893
York International/Citicorp Investments, Prudential	10/1	23	29¼	27	9	NM	NA	847
Stop & Shop/KKR	11/22	12½	17	36	12	16	22	833
Royal Appliance/management	8/6	15½	55½	258	8	16	38	699
Kaiser Aluminum /Maxxam	7/11	14	12	-14	7	3	6	687
Filene's Basement/Greylock, Oak, Whitney	4/30	14½	34½	138	10	28	47	681
Amsco International/Welsh Carson Anderson & Stowe IV	3/26	14	23½	68	9	20	28	666
R P Scherer/Shearson Lehman	10/11	18	28⅜	58	5	26	41	657
Horace Mann Educators/Gibbons Goodwin van Amerongen	11/14	18	21¼	18	8	NA	NA	615
BWIP Holding/Clayton & Dubilier	5/23	14½	25	72	10	11	26	607
Vigoro/Sam Zell	5/20	14	24⅜	74	5	8	NA	487
Joy Environmental Technologies/Adler & Shaykin	11/15	17	14⅝	-14	9	55	NA	461
AnnTaylor Stores/Merrill Lynch	5/16	26	22⅛	-15	10	NM	74	406
Warnaco Group/Spectrum Group, management	10/11	20	31⅜	57	10	NA	NM	389
Health Mgmt Associates/First Chicago, Prudential, management	2/5	16	31¾	98	17	29	24	355
Interstate Bakeries/Metropolitan Life, CS First Boston	7/24	16	16⅞	5	11	13	9	353
Homedco Group/Robertson Stephens	5/2	15	27⅛	81	6	39	24	335
Presley/management	10/10	10	15⅞	59	9	53	NM	294
Amphenol/LPL Technologies	11/8	9¼	8⅝	-7	5	NA	15	282
Sonic/MAST Resources	2/28	12½	31½	152	6	46	49	245
Caldor/Odyssey Partners, DLJ	4/24	21	17½	-17	7	NA	NA	244
Zilog/Warburg Pincus	2/27	11	22¾	107	6	11	20	244
TakeCare/Hillman family	3/20	19	25¾	36	5	12	14	232
Vans/McCown De Leeuw, Chesterfield	8/22	14	24¾	77	7	48	NA	222
Carlisle Plastics/management	5/15	11	12⅛	10	12	NA	NA	217

Recent prices as of Feb. 7. NA: Not available. NM: Not meaningful.
Sources: Securities Data Co.; Standard & Poor's; company prospectuses and financials; Forbes.

In a hot market, highly leveraged companies can go public at rich multiples—and then go still higher. These are the 30 largest reverse LBO deals of 1991, measured by market value of common shares outstanding.

All told, some 65 reverse LBOs hit the market in 1991, raising $5.7 billion. The table shows 30 of the biggest deals.

Consider one of KKR's deals: Duracell International Inc., the battery maker. KKR bought Duracell from Kraft in June 1988 in a $1.9 billion leveraged buyout, funded heavily by junk bonds. The buyout price came to a seemingly unmanageable 15 times Duracell's earnings before interest and taxes, or EBIT, a good proxy for free cash flow.

Last May KKR took Duracell public at $15 a share. This price put a total valuation on the business—debt outstanding plus market value of equity—of $2.6 billion. The sum came in at 11 times earnings before interest and taxes. Still, KKR cleaned up, because Duracell's cash flow had nearly doubled, and the steep leverage in the deal magnified KKR's profits as equity holder.

By historical standards, 11 times cash flow is a particularly high price for a mature business like a battery manufacturer. But note that the initial offering raised $500 million, used to retire some of Duracell's junk debt. Remember: Debt is out these days and equity is in. Deleveraging the company improved the market's perception of Duracell, further increasing the value of the company's equity. Now Duracell stock is trading at 33. Even after unloading 7 million of its shares in an offering in October, KKR is sitting on a Duracell stake worth another $2 billion.

KKR should thank its lucky stars that the public markets don't work the way private markets do. Businesses trade privately for more like eight times free cash flow. Had KKR received for its four companies what a private-market buyer would pay, its profit would have been $750 million, less than a quarter what KKR has made so far by selling equity to the public.

Now notice something scary in the table. Since going public, many of these reverse LBOs have appreciated sharply. Zilog, Filene's Basement and Sonic have all more than doubled.

What does that do to EBIT multi-

ples? Let's look again at Duracell. At its recent price, Duracell is being valued in the marketplace at an astounding 18 times earnings before interest and taxes. Yet investors keep buying. Many of these companies are fundamentally sound, but the market is even bailing out dealmakers who overpaid and overleveraged to the point where operating earnings failed to cover interest expense. Some examples: Robern Apparel, a skiwear importer, and Fruehauf Trailer, maker of truck trailers.

This is scary because it suggests that the financial pendulum is again swinging too far. Just as the public began to pay too much for junk bonds as the 1980s wore on, so it now appears investors are beginning to pay fanciful prices for equity. Equity, in effect, is becoming junk equity.

Consider Gulfstream Aerospace. The maker of top-of-the-line business jets was purchased in 1990 from Chrysler by Teddy Forstmann and partners of his Forstmann Little & Co. Price: $850 million, of which $100 million was equity. Gulfstream's sales dropped—from over $1 billion in 1989 to $887 million last year. Gulfstream's operating income of $21 million doesn't begin to cover its $73 million in interest expenses.

No matter. Forstmann is planning to sell 5.75 million Gulfstream shares (19% of the company's equity) to the public. Price: $20 a share, which values the company (equity plus debt) at a truly incredible 61 times EBIT cash flow. If the issue sells, Forstmann and his investors will have booked paper profits of $270 million on a $70 million equity investment.

Another example of expensive equity replacing junk debt: Burlington Industries plans soon to retire most of its LBO debt by selling equity at a price that would value the business at 13 times operating income *(see story, p. 66)*.

Is the market near a peak? There's no telling. Financial fads often last longer than seems possible. But here's one warning sign: In several of the more recent reverse LBOs, the insiders themselves have been converting some of their personal holdings into cash. When the smart money is selling, public investors need a very good reason to be buying. ■

In outmaneuvering Carl Icahn for control of George Gillett's assets, Leon Black is striding toward billionaire status.

Warming up for the big ones

By Phyllis Berman with Jean Sherman Chatzky

NOW THAT THEY are about to win the bidding for Executive Life's $6 billion (par value) junk bond portfolio, how do Leon Black and France's Crédit Lyonnais, his partner, intend to exploit what they are buying? For some clues, check out what Black is doing with George Gillett Jr.'s Gillett Holdings. If we're right, Gillett will become a pattern for restructuring deals that will make 42-year-old Black a billionaire before the decade is up.

The insolvent Gillett Holdings has managed to hold on to several television stations, a meatpacking plant and Vail Associates, which owns and operates the Colorado ski resort.

Leon Black knows Gillett, the man and the company, well. As a young investment banker at the late Drexel Burnham, Black played a key role in Gillett's purchase of a single television station, WTVT in Tampa, Fla., for an incredible $385 million in 1987. The price was so high the annual debt service requirements exceeded the station's annual gross revenues.

A few months later, Black again helped facilitate Gillett Holdings' purchase—at a very high 15 times cash flow—of a group of television stations that another Black client, buyout king Kohlberg Kravis Roberts, wanted to spin off from Storer Communications. Michael Milken tried to convince Gillett that the deal was fundamentally unsound. But in the end Gillett ignored Milken and bought the Storer stations, financing the purchase with junk bonds at rates as high as 17.5%.

By late 1989 Gillett Holdings was

The old one-armed bandit has entered the electronic age—and revenue-hungry politicians are delighted.

Legalizing the slots

By James Cook

A VIDEO LOTTERY TERMINAL is a slot machine that lays out video poker hands, bingo cards or what have you for low-stakes gambling. It's called adult amusement. It's the old one-armed bandit updated.

Except for their payment devices, these terminals are identical to the video poker machines played legally in Las Vegas and Atlantic City and illegally in tens of thousands of bars, restaurants and clubs all over the U.S. With VLTs you generally don't feed quarters into a slot, you feed bills, to establish your credit—$1, $5, $20. Your losses and winnings are electronically tallied as you play, then totaled and printed out on a slip redeemable for cash (if you come out ahead).

It's a product whose time has come. The lottomania (FORBES, *Mar. 6, 1989*) that sent state lottery revenues to more than $20 billion last year has finally run out of steam. Revenue gains are slackening off, and in a third of the states playing the game, revenues are down. The video lottery shapes up as a quick, easy and no longer especially controversial means of tapping a new source of revenue for voracious state budgets.

State lotteries have gone a long way toward making gambling respectable. They have turned gambling into a source of money for such estimable causes as education, the environment and economic development. The video lottery promises to do for the slot machine what lotteries did for the numbers game: channel people's gambling instincts into socially useful causes. Larry Lippon, boss of Video Lottery Technologies, which designed South Dakota's prototypical video lottery system, says, "Our whole vision was to create a stream of public revenues for funding favorite issues."

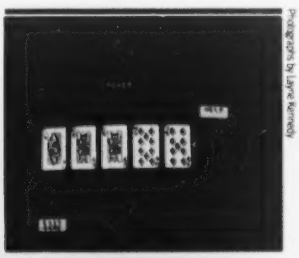
The stream is finally beginning to flow. Montana began playing the video lottery in 1985, South Dakota in 1989, Canada's Maritime Provinces in 1990, Manitoba and three Colorado mining towns last year. West Virginia and Alberta have trial programs under way, Oregon and Louisiana will get their games into operation this year, and legislation is under consideration in Kansas, Missouri, Minnesota, South Carolina, Wisconsin, New Mexico, New York and New Jersey.

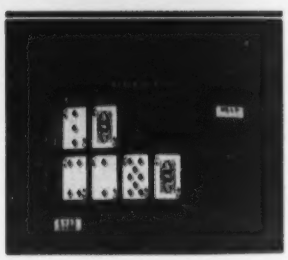
Players can sit for hours before the machines, playing with interactive touch-screen controls, turning hard-earned cash into instant adrenaline. The video lottery offers instant gratification—no waiting to learn whether you won or lost.

Last year the VLTs yielded Montana $21 million in tax revenue, South Dakota $25 million—five to ten times what their conventional lotteries do. And these are thinly populated, low-income states. Imagine what such lotteries could yield in New York, Illinois or California.

So the potential is enormous. There may be 190,000 casino machines in place, as against fewer than 30,000 VLTs, but the balance is likely to shift. John J. Russell is president of Reno's International Game Technology, the U.S.' largest videogaming machine manufacturer. Russell says that lottery demand could easily run between 300,000 and 600,000 machines over the next three or four years, and that doesn't include 150,000 machines for the traditional casino market. With VLTs currently selling for maybe $5,000 apiece, that shapes up as a $1.5 billion market, enough to get anyone's competitive juices flowing.

International Game Technology





Photographs by Lynn Kennedy

The games people will play **Video lottery terminals like these at a bar in Sioux Falls, S.D. promise to do for slot machines what lotteries did for the numbers game.**

The VLT game

Company	1991 revenues ($mil)	% change 87-91	1991 net income ($mil)	% change 87-91	Price range high	Price range low	Recent price	Market cap ($mil)
Bally Gaming Intl*	$155	32%	$5	33%	20	11¼	18½	$193
Intl Game Tech	237	186	30	—†	59½	10	56¼	1,665
Video Lottery Tech	31	297	4	7810	31½	16½	24	265
WMS Industries	161	31	11	1700	20⅞	2½	20⅛	456

* Revenue and earnings figures are estimates. †1987 had net loss.

One more sign of an overheated stock market: No matter that Bally's market share had collapsed, that Video Lottery Technologies' earnings per share had leveled off, or that WMS had yet to sell a single machine. Their new shares were gobbled up last fall. Of the public companies here, only Video Lottery Technologies and IGT have established major positions in the VLT market, but the others are coming.

pioneered the videogaming machines that started it all in the early Eighties. But the competition is coming on fast, especially from Lippon's Video Lottery Technologies and from privately owned Gtech (FORBES, *Jan. 23, 1989*), which produces on-line computer systems for two dozen state lotteries.

Bringing up the rear are a dozen or so other companies, including Bally Gaming International, which manages West Virginia's pilot VLT project, and WMS Industries, the world's largest maker of pinball machines, which introduced its first VLT at a trade show last September. At least one major defense contractor has thought about getting into the business. And there are others waiting to take the plunge. Last fall a passel of gaming outfits—Video Lottery Technologies, Bally Gaming and WMS Industries—were able to peddle nearly $150 million in new stock to the public at multiples that made them look like biotech outfits *(see table)*.

Actually, videogaming was well under way before state governments recognized it as a potent source of revenue. According to Montgomery Securities' William S. Fellows, the manufacturers have already put at least 150,000 untaxed, unregulated and illegal machines into operation in North America.

Don't count on the legal VLTs' putting the illegal market out of business. An illegal machine in a densely populated state like New Jersey can yield $4,000 or more a week, and an operator can recover his $5,000 investment in the machine in two or three weeks, faster than law enforcement is able to shut him down. Despite the legalization of lotteries and off-track betting, numbers rackets and horse rooms still flourish. But at least legalization shifts some of the burden of government from the taxpayer to the gambler—and while lots of people love to gamble, almost nobody loves paying taxes.

#1 Ranked Balanced Fund Over Ten Years.

	1 Year*	5 Years*	10 Years*
BALANCED FUND RANK (LIPPER)	**#5 of 63**	**#2 of 32**	**#1 of 23**
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THE FORBES/BARRA WALL STREET REVIEW

BY GILBERT STEEDLEY

If Fed Chairman Alan Greenspan starts cutting interest rates again, expect some more excitement in the auto stocks. Investors think that lower interest rates and a recovering economy will especially help Detroit's automakers. Auto analyst Arvid Jouppi, of Arvid Jouppi & Associates in Canton, Mich., thinks that the auto industry is well positioned for a cyclical rebound. "Their difficult cost-cutting programs will make a difference," claims Jouppi. Barra, Inc.'s factor for motor vehicle manufacturing had a 9.4% gain in the last two weeks and is up 16% since the start of the year. More may be in store: On Feb. 4 Greenspan stated that additional rate cuts were possible, driving the Dow industrials, the Nasdaq and the Amex to new highs.

The Barra All-US index finished with a slight gain for the two weeks ending Feb. 6, but it is still off from its mid-January peak.

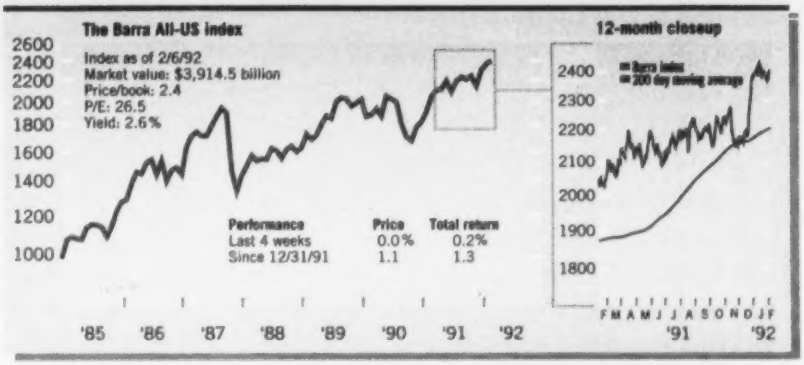
Special focus

One area where Japan has lagged the U.S. and the rest of the world recently is in stock market performance. For the three months ended in January, the Morgan Stanley index for Japanese stocks had a –8.6% return (including dividends and measured in U.S. dollars) versus a 4.9% return for the U.S. Hong Kong's market led, up nearly 17%.

International scorecard

Hong Kong	16.6%	Denmark	2.6%
Austria	14.3	Finland	2.5
Italy	12.6	UK	2.4
Belgium	12.4	Spain	0.2
Singapore	11.9	Sweden	-0.3
Germany	9.7	Canada	-0.9
Netherlands	7.7	Norway	-1.7
Switzerland	7.7	New Zealand	-4.0
France	6.3	Australia	-7.5
United States	4.9	Japan	-8.6

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	0.3%	21.1%	-1.6%
Sharpe/Barra Growth index[1]	-0.1	24.7	-3.5
Sharpe/Barra Value index[2]	-0.1	14.3	-2.0
Dow Jones industrials	0.9	15.8	-0.5
S&P 500	-0.3	16.1	-1.7
NYSE	0.0	17.6	-1.3
Nasdaq	2.4	46.6	0.0
Amex	0.5	24.4	0.0
EAFE[3]	0.4	-0.5	-19.0
CRB index[4,5]	1.0	0.2	-21.7
Gold[5]	0.1	-3.3	-29.3
Yen[5]	1.4	-2.3	-23.4
Oil[5]	4.3	-8.0	-52.6

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Kentucky Central Life Ins	9 5/8	54%	$ 1.40	US Bioscience	17 1/2	-47%	$-0.16
Owens-Corning	36 5/8	47	1.95	Autodesk	26 1/4	-26	2.82
Imperial Bancorp	14	43	1.15	Pacific Enterprises	18 3/4	-25	2.16
Score Board	39 1/4	39	1.82	Acuson	23 1/2	-24	1.83
Grenada Sunburst Sys	20 1/4	38	1.65	Interlake	6 7/8	-21	0.15

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Motor vehicles	9.4%	16.5%	Oilfield service	-10.1%	-16.0%
Beverages	6.5	3.2	Coal & uranium	-6.9	-7.4
Tobacco	5.5	5.8	Life insurance	-6.5	-9.8
Construction	5.1	11.7	Aluminum	-6.4	-8.6
Forest products	3.9	19.9	Misc mining, metals	-6.1	-3.1

Note: Data for period ending 2/6/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

NEW ISSUES REVIEW

BY WARREN MIDGETT

The biggest new issues[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Owens-Illinois/glass, plastics	n	12/11/91	11	12	528	Morgan Stanley	9%	99
HealthTrust/hospitals	n	12/12/91	14	15¼	511	Merrill Lynch	9	100
Health Care & Retirement/nursing homes	n	10/17/91	17	22⅛	263	Merrill Lynch	30	122
Horace Mann Educators/insurance	n	11/14/91	18	22¼	214	First Boston	24	118
ShopKo Stores/discount variety stores	n	10/8/91	15	12⅞	198	Goldman, Sachs	–14	78
York International/refrigeration equip	n	10/1/91	23	25⅞	184	First Boston	13	105
Stop & Shop/supermarkets	n	11/22/91	12½	13⅞	170	Merrill Lynch	11	100
Gaylord Entertainment/cable, broadcasting	n	10/24/91	20½	29½	157	First Boston	44	133
Bell Bancorp/savings & loan	o	11/12/91	25	29¾	156	Adams, Cohen	19	112
RP Scherer/mfg gelatin capsules	n	10/11/91	18	30¾	140	Lehman Brothers	71	156

Performance update

The market for initial public offerings is hotter than a summer day in Phoenix. In 1991, 366 new issues raised $16.5 billion in capital. Though not quite a record, it was the biggest year since 1987, when 519 issues generated $17.1 billion. The fourth quarter of 1991, in which $6.2 billion in capital was raised, was $1.3 billion shy of the record-setting fourth quarter of 1986.

The hottest industry in 1991? Biotech, which accounted for 51 issues and slightly over $1.4 billion raised. The biggest biotech offering of 1991 was Haemonetics, which raised $106 million. A number of these stocks, already expensive (in relation to book value) when they came out, have since doubled or more than doubled. Examples include Aphton, Medirex and Applied Immune Sciences.

This year is also off to a strong start. As of early February, 46 companies had gone public, raising $2.3 billion. According to Newark, N.J.-based Securities Data Co., another 122 issues are already in registration; their offerings have a potential value of $5.8 billion.

"Interest rate cuts have no doubt accelerated the pace in the IPO market, but another key factor has been the deleveraging of the 1980s," says Joe Miller, a Securities Data analyst.

The best new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Mitek Surgical Prods/surgical implants	16	14	Hambrecht & Quist	109%	193
Broderbund Software/software	11	36	Alex Brown & Sons	109	188
Alteon/pharmaceuticals	15	45	Alex Brown & Sons	100	188
Intervisual Books/publishing	3	5	Chatfield Dean	96	178
Perrigo/pharmaceuticals	16	128	Morgan Stanley	86	171

The worst new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Salton/Maxim/appliances	12	28	Dean Witter	–54%	41
Koo Koo Roo/restaurants	5	6	Whale Securities	–45	52
Veterinary Ctrs of Amer/animal hospitals	6	14	Rosenkrantz, Lyon	–35	59
Dateq Info Network/information svcs	10	8	Chicago Corp	–35	61
Sunbelt Nursery Grp/lawn & garden prods	8½	27	Smith Barney	–32	62

The most active investment bankers

Underwriter	Total offerings	Total raised ($mil)
Goldman, Sachs	20	$2,686
Merrill Lynch	16	2,327
First Boston	19	1,655
Morgan Stanley	12	1,114
Alex Brown & Sons	20	728

Industries going public

Industry	Total offerings	Total raised ($mil)
Manufacturing	40	$2,371
Health care	10	1,000
Business svcs	27	637
Retail	7	545
Insurance	4	334

Note: Initial public offerings of common equities with offer date of 10/1/91 to 12/31/91, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. [1]Last quarter. [2]The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. [3]Latest 12 months. Source: Securities Data Co.

MAR

16

1992

How to play the international interest rate gaps

The "conspiracy" against women

C395a-1

March 16, 1992 Four Dollars

Forbes

MY STORY

"After 1986 I felt like a skilled surgeon who's been locked out of the operating room and watches through the glass in horror as some first-year medical students go to work on a patient. They're cutting him open while referring to textbooks but they're turned to the wrong chapter."

MICHAEL MILKEN

0 439338 2

Forbes
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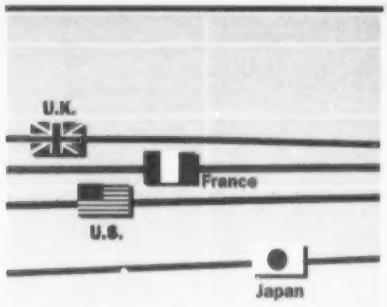

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Cover photo by James Colburn/Photoreporters

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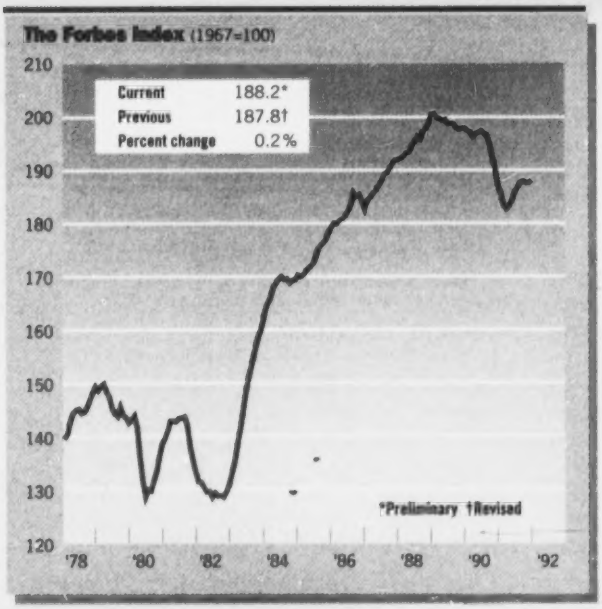
THE FORBES INDEX

BY TIMOTHY DODMAN



Recessions are like forest fires—destructive, but capable of sowing the seeds for future growth. The current recession helped bring down the trade deficit to its lowest level since 1983. While exports set a record in 1991, imports declined for the first year since 1982. Likewise, consumer and corporate balance sheets are being rehabilitated.

The economy is beginning to show signs of a recovery. January housing starts were 38% above their depressed January 1991 level. And auto sales may have turned the corner *(see table below)*.

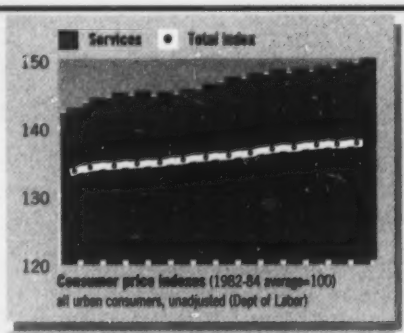
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	2.7%
Index of leading indicators Dec vs Nov	Dept of Commerce	-0.3%
Trade balance 12 months ended Dec 1991	Dept of Commerce	-$66 bil
All-commodity producer price index Jan vs Dec[2]	Dept of Labor	-0.3%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.3%
M2 (3-month change)—annualized growth[3]	Federal Reserve	4.0%

[1] U.S.-based manufacturers, excludes imports as of 2/10/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

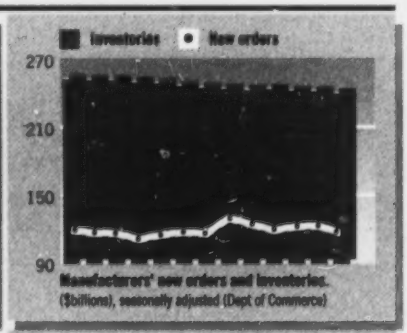
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

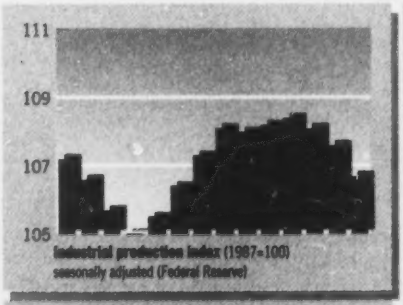
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



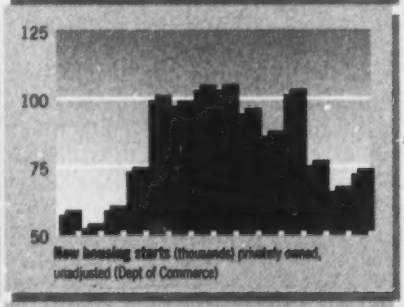
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



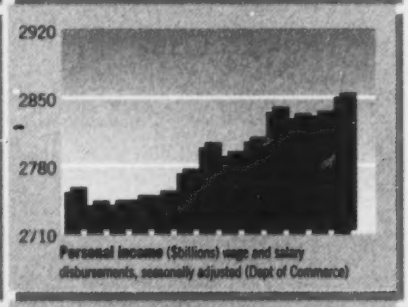
Manufacturers' new orders and inventories, ($billions), seasonally adjusted (Dept of Commerce)



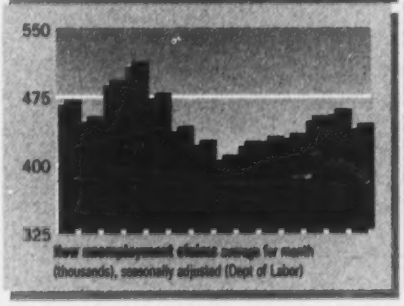
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



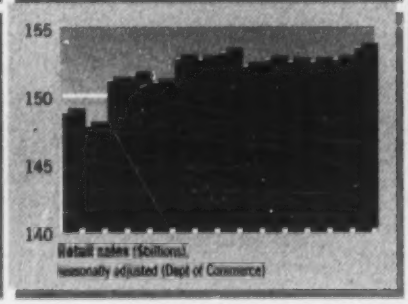
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

Is it time for value again? In the supercharged bull market of 1991, growth stocks—those trading on hopes for future earnings and/or sales gains—comfortably outperformed the more conservative value stocks, the ones trading on the strength of their earnings, balance sheets and breakup values. But during the six weeks ended Feb. 20, Sharpe/Barra's growth stock index lost 4%, while its value index gained 3%.

Denis Laplaige, manager of the Mainstay Value Fund, thinks it's high time for value stocks to make a comeback. "The gap [in P/E ratios] between growth stocks and cyclicals is as wide as I've seen it in 15 years," he says. Laplaige's portfolio sells at 16 times trailing earnings, versus the market's multiple of 26. Some recent additions include GenCorp and Mark IV Industries. Laplaige also likes a few finance companies, such as Beneficial and Green Tree Acceptance.

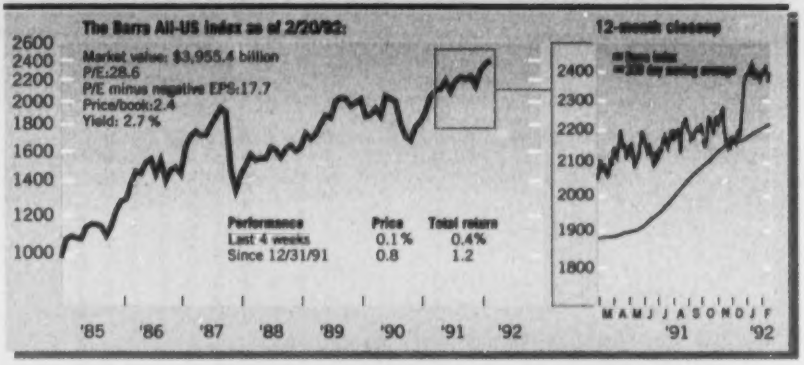
Special focus

As a group, the S&P 500 sells for 26 times trailing earnings. But, as Josh Weston of Automatic Data Processing Inc. points out, the earnings figure incorporates losses of moneylosing firms. Remove the 88 losers from the index and the remaining firms are trading at an average 18 times earnings.

Valuation of the S&P 500

Number of S&P 500 companies with:	
P/Es greater than 25.0:	104
P/Es between 25.0 and 15:	180
P/Es less than 15:	124
Negative earnings:	88
Not available:	4

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US Index	-0.2%	18.0%	-1.8%
Sharpe/Barra Growth Index[1]	-1.2	20.0	-4.6
Sharpe/Barra Value Index[2]	1.6	13.5	-0.5
Dow Jones Industrials	1.7	13.5	0.1
S&P 500	-0.3	13.4	-1.6
NYSE	-0.1	14.7	-1.4
Nasdaq	1.5	41.6	-2.0
Amex	-0.3	20.8	-1.5
EAFE[3]	-5.9	-9.9	-23.8
CRB Index[4,5]	-0.9	0.0	-22.4
Gold[5]	-0.6	-2.6	-29.7
Yen[5]	2.3	-2.2	-21.6
Oil[6]	-4.9	0.5	-54.9

The best and worst performing stocks

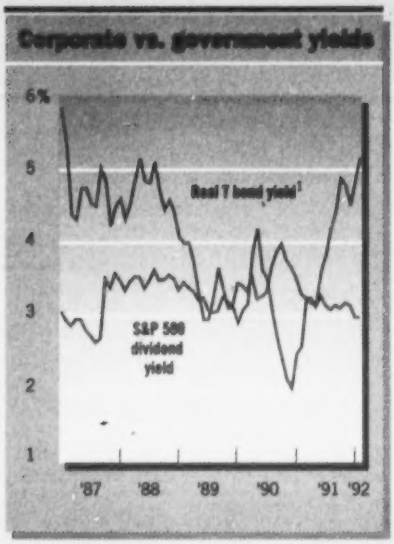
Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Showboat	14	47%	$0.72	MGI Pharma	11⅞	-47%	$-0.97
Basic American Medical	18	41	NA	MESA Inc	3⅛	-39	-0.54
Society For Savings Bncp	9⅛	40	NA	Contocor	34	-34	0.71
Grand Casinos	23¼	39	0.30	Manley & James	10	-30	NA
Oneita Inds	22⅞	38	1.20	Cambridge NeuroScience	8¼	-30	-1.01

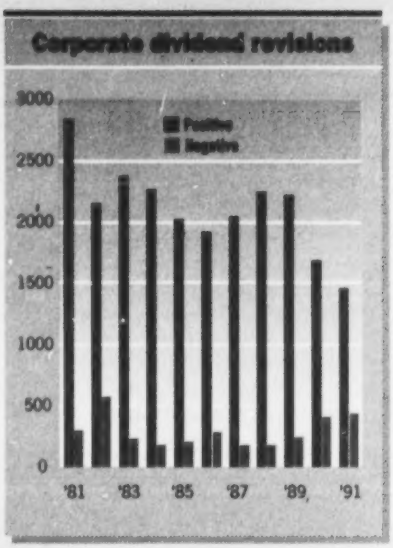
The best and worst performing industry factors

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Forest products	12.9%	35.2%	Tobacco	-6.7%	-1.2%
Motor vehicles	9.6	28.3	Coal & uranium	-6.4	-13.9
Water transport	9.5	10.3	Health care	-5.7	-9.4
Aluminum	9.4	0.4	Cosmetics	-5.3	-1.0
Trucking	7.8	14.1	Pollution control	-5.0	-2.8

Note: Data for period ending 2/20/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

BY GILBERT STEEDLEY





Stocks are now trading at 34 times dividends—that is, the average yield in the market is a mere 3%. By historical standards, a multiple of 34 times cash payout is a fairly rich price. Are dividends destined to climb briskly? The recent news isn't good. Dividend cuts and omissions are running high—22 in January of this year.

After averaging a 7% annual growth rate through the 1980s, dividends on the S&P 500 increased just 1% in 1991. Last year was the worst year for dividend increases in two decades—only 1,086 firms raised dividends.

A moderate rebound is expected for dividends in 1992. Gregory A. Smith, chief investment strategist of Prudential Securities, predicts a 5% rise for S&P 500 dividends.

The dividend picture is particularly bright in one sector: pharmaceuticals. Ronald Nordmann, a drug analyst at PaineWebber, says that Schering-Plough can expand both dividends and earnings by better than 15% for the next several years. Nordmann also likes Syntex, which is currently yielding less than the industry average of 2.5%, but he thinks it should deliver dividend growth of about 18% per year through the mid-1990s. The table at lower left shows other stocks with good dividend growth records.

Representative industry yields

Industry	Yield	Payout ratio [2]	P/E	Industry	Yield	Payout ratio [2]	P/E
Automotive	4.4%	NM	NM	Household Prods	2.1%	40%	21
Banking	3.1	49	27	Petroleum	5.3	101	16
Basic chemicals	4.1	71	17	Pharmaceuticals	2.3	48	25
Electrical Equipment	2.7	43	16	Retail	1.6	40	24
Electrical utilities	6.4	67	13	Telecommunications	4.6	67	18

Solid dividends

Company	Price	Indicated rate	Yield	Payout ratio	Dividend growth [3]
Automatic Data Processing	46½	$0.40	0.9%	23%	16%
CPC International	80	2.20	2.8	47	13
Dillard Dept Stores	130¼	0.24	0.2	4	14
Interpublic Group	57	0.84	1.5	34	16
Medtronic	80⅛	0.48	0.6	19	16
Rubbermaid	32⅞	0.34	1.0	35	18
Sara Lee	51⅛	1.00	2.0	34	19
Schering-Plough	56¼	1.32	2.3	44	24
Sigma-Aldrich	47¾	0.25	0.5	16	15
Syntex	47⅛	0.92	2.0	48	23

Doubtful dividends

Company	Price	Indicated rate	Yield	Trailing EPS
Arvin	9⅝	$1.08	11.2%	$0.28
Ford Motor	38⅛	1.60	4.1	-4.89
General Motors	39	1.60	4.1	-7.49
Nevada Power	18½	1.60	8.6	0.38
NS Group	7¼	0.12	1.7	-1.75
Outboard Marine	25	0.40	1.6	-4.15
PS Group	27¾	0.60	2.2	-6.39
Sierra Pacific Res	23¼	1.84	7.9	1.66
Sterling Chemicals	4⅞	0.30	6.2	0.24
Tenneco	39¼	1.60	4.1	-5.62

Note: All data, except where footnoted, as of 2/20/92. [1]Yield on 30-year Treasurys adjusted for inflation using the trailing 12 months' increase in the Consumer Price Index. [2]Capitalization-weighted. Dividends divided by net income; all extraordinary items are excluded. [3]Five-year growth rate. NM: Not meaningful. Sources: Media General, Value Line, via Lotus One Source; Standard & Poor's.